WHEN THE GOING GETS TOUGH: COMMUNICATION ACTIVITIES USED BY BANKS DURING RECESSION

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Lindsay Lyles Dillingham

When the Going Gets Tough: Communication Activities Used by Banks During Recession

A Master's Thesis

Presented to

The College of Graduate Studies

Austin Peay State University

In Partial Fulfillment

Of the Requirements for the Degree

M.A. in Corporate Communication

Lindsay Lyles Dillingham

May, 2010

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May, 2010

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ABSTRACT

LINDSAY LYLES DILLINGHAM. When the Going Gets Tough: Communication Activities Used by Banks During Recession (under the direction of DR. PAMELA GRAY.)

Purpose: The purpose of this study was to identify the actions and attitudes of bank management toward external communication efforts during periods of economic recession. By surveying managers of regional and national banks in Tennessee, the research sought to confirm the theory that bank management teams cut external communications efforts early and drastically during a financial crisis despite the fact that increased or at least maintained external communication efforts could insulate the bank from recession effects. The study also assessed bank manager's attitudes towards external communication during recession and how they viewed the effect of media reports overemphasizing negative economic data on their customers.

A review of literature showed that banks could suffer the effects of a run (simultaneous mass withdrawals from a particular bank) during a recession despite FDIC coverage and the solvency of that bank. Scholars also found that media reports of a trouble spot in the banking system or the economy as a whole could propel an otherwise unfounded bank collapse. Research has shown that increased external communication efforts by banks, particularly non-product advertising, could combat this issue.

Results of this study show that banks do cut external communication budgets earlier than other department budgets during a recession. However, these cuts did not

prove as drastic compared to cuts in other departments as previously thought. Most respondents reported a cut of 20% or less in external communication spending, which is similar to the cuts experienced by other departments later in the recession.

In a broad sense, bank management seemed to acknowledge the value of communicating with customers during recession. However, the research also showed that bank managers did not have a clear understanding of where their customers actually got the information to determine their confidence level in the bank's stability. This showed an underestimation of media effects and too heavy a reliance on raw financial data by bank managers. Respondents did not place a huge value on non-product advertising and indicated that FDIC insurance and sound data about their particular bank would reassure customers even when news reports indicated overall economic problems. Furthermore, respondents demonstrated an erroneous view of the level of external communication needed during a recession to maintain positive feelings from customers toward the bank.

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CHAPTER I

Introduction

Recession occurs inevitably as part of the United States economic cycle (Timberlake, 2003). Affecting all segments of population and industry, a recession is defined by Pearlman and Steder (1992) as the act or action of receding: withdrawal; a period of reduced economic activity. Most economists adhere to former Federal Reserve chairman Alan Greenspan's definition: two consecutive quarters of negative economic growth (Lott, 2008).

Banks play a key role during these constrictive periods known as recessions. Considered an integral part of any recession story (Ennis, 2003), the nation's banks get scrutinized by the media, government, investors and market analysts during periods of financial stress (Chen & Hasan, 2008). It becomes essential for banks to cut costs quickly to increase efficiency. Douglas West (2008), editor of the *International Journal of Advertising,* fears that most often these types of reductions first come in the form of advertising and promotion downsizing.

However, research shows that during recession increased external communication efforts can actually help mediate the effects felt by banks during recession, most namely devastating runs. In addition, scholars (Chen, 1999; Bougheas, 1999) have found that during recession excess coverage by news media about financial events can increase anxiety and trigger withdrawal patterns in bank customers. Since banks appear to underutilize communication, the key resource that could lessen these crippling effects,

this study sought to assess the actions and attitudes of bank management towards communication spending during recession.

A survey of bank managers evaluated actions towards their bank's external communication spending during the most recent recession. In addition, this research assessed the attitudes of bank management towards external communication spending during recession. It also gauged the perception of bank leaders concerning where their customers actually got the information to determine the confidence level in their own bank.

By determining what actually occurs in bank management circles during recession, an improved plan of action for future recessions can occur. If research indeed reveals that managers do not have a positive view of or use external communication when the bank most needs it, doing so as a result of these findings could help insulate banks from recession effects. Having this type of protection plan in place could allow banks to move forward with growth plans, since recession would not hold as much of an unpredictable threat to their financial stability.

CHAPTER II

Statement of Research Questions

Based on research conducted through study of several prominent United States recessions (Picard, 2001; Kamber, 2002; Levy, 2007), research will seek to determine:

RQ1: Do bank management teams cut external communication budgets and team members early and drastically during a recession?

Picard (2001) explored recessions of nine developed nations from 1989-2001. This study found that in every country an overall decreased advertising expenditure of 5% occurred when gross domestic product fell by just 1%. Kamber (2002) discovered a similar pattern in the correlation of advertising dollars with economic performance.

When viewed in light of Levy's (2007) estimate that public relations budgets and staff can receive up to a 75% loss during a financial crisis, it becomes reasonable to conclude that the banking industry would be among the majority to cut communication allocations. Research linking recession and communication spending consistently points to quick and drastic reduction of external communication budgets, including staff positions.

RQ2: Do bank management teams see the necessity of increased external communication efforts during a recession?

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The phenomena of bank runs and the subsequent devastating effects on the interdependent economy has prompted substantial scholarly research. Chen (1999) found that depositors react to early reports of recession due to the history of contagious bank failures. This puts banks in perilous reliance on customers during times of financial stress.

Studies by Heffernan, O'Neill, Travaglione and Droulers (2008) and Barnes (1997) found that the success of a banking relationship depended on the emotional affinity of the customer towards the bank as a whole. This coincides with DeReimer and Baxter's (1986) theory that the banking industry leans heavily on the vague commodity of "public trust" for profits. Therefore it becomes reasonable to conclude that banks must increase communication during periods of recession in an attempt to continue the emotional dialogue with customers and prevent mass withdrawals.

CHAPTER III

Review of Literature

Several notable recessions plague American history. Pearlman and Steder (1992) estimated the occurrence of minor recessions every five to seven years with major downturns plaguing society on average every 48 years. These economic infractions combine governmental monetary contraction with at least one other macroeconomic problem to arrive at crisis level (Weiher, 1992). As an example, widespread bank failures proved the catalyst for the Great Depression (Wicker, 1980), while 1945 saw a recession due to the end of World War II (Weiher, 1992). The 1960s revealed high unemployment and inflation rates followed by the global oil crisis in 1975 (Weiher, 1992). Changes in the Iranian government brought another spike in oil prices causing the 1981 recession, while Americans suffered as a result of the 1987 stock market crash and the Persian Gulf War during the early 1990s (Weiher, 1992).

The year 2000 brought corporate accounting scandals and the deflation of technology companies to create the new millennium's first recession, which worsened with the terrorist attacks of 2001 (U.S. Census Bureau, 2007). The most recent recession stemmed from a major devaluation of home prices across the country (U.S. Census Bureau, 2007).

Since the 1920s, economists have attempted to mold economic data into a usable pattern called a "cycle" (Rotheli, 2007). By interpreting contractions and expansions using mathematical models, analysis of government policy and stock market charts, analysts seek to foresee financial crises (Rotheli, 2007). In this model the crippling

national effects of recession – widespread unemployment, uncontrolled inflation, and devalued personal assets – could be avoided by accurate forecasting (Rotheli, 2007). By observing past behavior and present conditions, the presence of a consistent economic cycle could help businesses and citizens delay or stop the onset of economic hardship, or at least make preparations beforehand.

Unfortunately the economic cycle that should exist in theory has little practical use (Weiher, 1992). Weiher (1992) noted that understanding the past becomes crucial to hypothesizing about the future. However, a look into economic history shows that every major recession has possessed unique variables to determine its origin and length. This makes the forecasting Rotheli (2007) suggested largely inaccurate and implausible. Without the possibility of reliable economic projections, the nation stands vulnerable to an unexpected downturn.

The circumstantial differences among United States recession history leave one to question the presence of a commonality among these difficult periods. Though various economic factors have played a role in the cause and effects of each, one theme has appeared concurrently in each instance of United States economic crisis and recession: high levels of fear among bank depositors.

Influence of Public Opinion

A groundbreaking study by Maides (2006) approached the unfortunate reality of bank runs, or simultaneous full and partial withdrawals among depositors of a bank. This study sought to determine if a bank run can result from self-fulfilling causes (purely panic

driven) or if actual negative information regarding the solvency of an individual depositor's bank has to incite the activity. Madies (2006) also researched the persistence of such phenomena.

This study discovered that bank runs do result from panic, thus proving them self-fulfilling. Surprisingly this emotional reaction occurred even in the presence of full deposit coverage (Madies, 2006). Even more compelling, this research study found that bank runs resulting from panic persisted over time. These widespread irrational financial decisions happened repeatedly, despite the survival of the same and other banks during previous runs (Madies, 2006). In addition, bank runs proved extremely difficult to prevent, as noted by their persistent nature. This finding places banks in a delicate balance, since runs of its depositors did not coincide with actual financial data about the bank's profitability (Madies, 2006). Bank management therefore must dismiss initiatives to enhance a bank's financial strength as a combative measure against crippling bank runs.

While Madies' (2006) study provided relevant information about runs on an individual bank, it did not address arguably the most disturbing aspect of panic-driven bank runs. By observing history and studying modern economic theory, the contagious nature of bank runs becomes undeniable. Research by Bougheas (1999) found that a run on one bank makes depositors at other banks concerned about their banks' solvency, regardless of the solvent bank's financial condition. This panic across multiple banks occurred with the lethal combination of two factors: a recent bank run or failure and a negative perception about the overall state of the economy (Bougheas, 1999).

Bougheas' (1999) interpretation of data indicated that neither a bank run or failure nor recession acting independently could trigger a widespread banking panic. Depositors had to witness a bank run and also feel that the overall economy had entered a depressed state (Bougheas, 1999). At that point, Bougheas noted, the signals aligned to make depositors run on the banking system as a whole. This occurred whether or not the contagious banks runs had a sound base of legitimate information (Bougheas, 1999).

This evidence shows that all banks can suffer at the hands of one emotionally driven bank run. The fact that depositors appear to make decisions based on logic unrelated to the true state of the bank's balance sheet proves quite disturbing. Calomiris and Mason (1997) found that depositors will run on both solvent and insolvent banks if they can observe only system shocks in lieu of actual information on bank solvency. The evidence of this claim, that fear induces runs on fundamentally sound banks, lies in the fact that much of the withdrawn funds get reinvested shortly after the panic subsides (Calomiris & Mason, 1997). If the runs had a tangible cause, the funds would stay out of the bank until its financial condition improved.

The statistically sound research of these three modern theorists (Madies, 2006; Bougheas, 1999; Calomiris & Mason, 1997) coincides with classic research on the topic of bank runs and panics. A discussion of these occurrences must contemplate the most notable series of bank failures in United States history. The bank panics and subsequent failures from 1930 – 1933 have garnered much attention from historians and economists alike. During that time period approximately one third of all banks failed (Walter, 2005). This frightening time in history denoted a collapse of favorable public opinion and with it

overall economic stability. For that reason, the events of this time period have relevance to the study of present day bank run risk analysis.

Considered one of the founding bodies of work on the issue of bank panic, Friedman and Schwartz (1963) found the panic of the early 1930s a self-fulfilling disturbance not founded in the macroeconomic recession occurring during that time period or the balance sheets of individual banks. This susceptibility to contagious panic-induced runs denotes the banking system as inherently fragile (Friedman & Schwartz, 1963). A reassessment of the Friedman and Schwartz study by Wicker (1980) found that this long series of bank runs and subsequent failures did indeed arise from factors not wholly related to macroeconomic activity. Wicker (1980) furthered the Friedman and Schwartz's findings by noting that the reduction in money supply created from the widespread deposit withdrawals drastically worsened the effects of the Great Depression.

While Friedman and Schwartz (1963) and Wicker (1980) agreed that the widespread bank failures and runs in the early 1930s occurred largely as a result of fear rather than the economic condition of the nation, the reality of the time period must be noted. Since both of these studies occurred long after the 1930s bank failures, the researchers could not certainly know the source of the depositor's transactional patterns.

One certainty does exist, however, and that is the fact that the bank failures of the early 1930s occurred during a major recession. While fear held the majority of responsibility for these runs, this reaction occurred amidst a state of declining economic stability. Thus Bougheas' (1999) view that fear must combine with macroeconomic

conditions to incite bank runs and failures aligns with the classic studies of Friedman and Schwartz (1963) and Wicker (1980).

The negative impact of fear on the banking system during periods of recession becomes even clearer when viewing the actions of government leading up to and during the historical 1930s bank runs. Through a study of Herbert Hoover's presidency Houck (2000) determined that generations of government officials have recognized and feared the role of emotion in the economy. In the wake of the 1929 stock market crash President Hoover not only sought to revitalize the financial welfare of the nation through restoring confidence, he extrapolated his view to mean that public opinion about the future state of the economy could shape current economic conditions (Houck, 2000).

President Roosevelt seemingly shared Hoover's view with his creation of the FDIC in 1933. Concerned with the risk of unfounded bank failures, the government realized that it certainly could not ignore the issue of contagious bank failures if it wanted a secure financial system (Walter, 2005). The FDIC formation points to the fact that even in the 1930s the government realized that economic fundamentals relied at least in part on public confidence (Walter, 2005).

Following the formation of the FDIC, the government's measures seemed to stop bank panics and stabilize the system for a period of time (Walter, 2005). As Walter (2005) noted, the period of bank failures came to an abrupt stop with the formation of deposit insurance. This cessation points to the fact that panic created these failures, because easing the mind of the public halted them. In this manner the United States

government lent itself credibility to manage the collapse of banks and as a result the financial system in its entirety (Timberlake, 2003).

Since that time the government has worked to preserve public sentiment. In a 2008 article by Federal Reserve chairman Ben Bernake, he noted that the public must understand government action as it relates to securing bank deposits. He also addressed the fact that transparency must exist with Federal Reserve actions so the public will have confidence in its ability to preserve the financial system (Bernake, 2008). The government's efforts toward depositor security have continued even in the most recent financial crisis with a 150% increase in the amount of FDIC coverage in 2008 (Hansen, Carlson & Dosch, 2009).

Unfortunately the government has not succeeded in its attempts to manage banking panics. As Madies' (2006) study noted, deposit coverage helps soothe public unrest but ultimately does not prevent a bank run in light of widespread panic. Self-fulfilling panics will happen even when in reality no loss of funds can occur (Madies, 2006). A recent study by Ennis (2003) also supported the view that policymakers cannot rely on deposit coverage to prevent bank runs, as the runs generally involve multiple factors outside of government control. These uncontrollable factors most often have a root in self-fulfilling panic, and government attempts to quell fear with monetary policy do not affect these types of bank runs (Calomiris & Mason, 1997).

The public's keen awareness of the way banks operate suggests one reason for the continued problem with depositor security. As history has taught the American people, banks operate on credit. As Gale and Allen (1997) described, banks take the money of

depositors and invest those funds to make a profit. Due to the number of banks in America, institutions must offer higher returns to investors (in this case depositors) to stay competitive (Gale & Allen, 1997). Therefore it often becomes essential to invest in risky asset classes, namely loans. The rate of return on the bank portfolio is not guaranteed, although the contract between the depositor and the bank does guarantee the return of the depositor's funds on demand (Gale & Allen, 1997). A guaranteed return of deposit combined with unsecured return on investment for the bank clearly creates a situation requiring whole reliance on depositors' level-headedness to maintain the delicate balance.

This model presents a problem when multiple depositors demand large withdrawals at once. With a portfolio of illiquid assets, liquidation often proves costly to the bank (Gale & Allen, 1997). The bank can effectively become insolvent during a bank run if the portfolio of assets has diminished in value or is inaccessible at a time when bank depositors demand the guaranteed and total value of their assets (Gale & Allen, 1997).

Chen (1999) dubbed the public's conceptualization of this business model "the first-come, first-served rule." He noted that banking panics occur because depositors realize their demands will not get met if a run occurs in which they do not have early participation. This unfortunately forces depositors to react strongly to the failure of other banks or any type of apprehension surrounding a particular bank, the banking system as a whole, or macroeconomic conditions (Chen, 1999). Gale and Allen (1997) also recognized the power of depositors over banks and their knowledge of the banks'

operational infrastructure. These scholars (Gale & Allen, 1997; Chen, 1999) attributed the precipitation of bank runs to this aspect of depositor awareness.

At this point the cause and effect of bank panics must be noted. Madies (2006) pointed to panic as a cause for a single bank run while Bougheas (1999) found that one bank run leads to contagious panic-induced bank runs. This has relevance to the overall economy, which affects the welfare of the entire country. Gale and Allen (1997) linked banking crises to global currency crises. When banks are forced to rapidly liquidate assets to meet the demands of depositors, it results in shocks to the stock market and exchange rates (Gale & Allen, 1997). If Bougheas' (1999) view that panics happen when the economy experiences a downturn holds true, the interdependency Gale and Allen (1997) illustrate means that bank runs serve to deepen an existing economic recession.

Influence of Media

If depositor fear during recession leads to panic that creates contagious bank runs and a severe domino effect on the interdependent economy, it becomes essential to know what creates this fear among the American public. Throughout the years scholars and economists alike have laid the blame at the foot of the nation's media outlets.

Chen (1999) found that "noise" triggered the early reaction of bank depositors who understand the "first-come, first-served" rule. His research supported the view that any "noise" surrounding poor economic or banking conditions could lead to a strong reaction from bank depositors, possibly even leading to a bank run. In a 2003 study, Yehning and Hasan attributed bank runs to "noise" in the media about what may or may

not happen with a bank's solvency. The researchers went on to say that even expectations about the quality and amount of bank-specific news can lead to withdrawals (Yehning & Hasan, 2003).

Though in media research the term "noise" does not have an easy definition, Erikkson (2008) explained the concept well. While he acknowledged that noise had to occur before communication, he made the clear distinction that noise represents an indistinguishable gray area that should not get mistaken for real dialogue about an issue. Erikkson (2008) noted that some type of disturbance causes noise, and once that early noise gets removed, true communication about the matter at hand can occur.

Erikkson (2008) pointed out that often the general public does not have the ability to separate noise from communication, or for the most part even realize that a major distinction exists between the two. In light of that, it becomes unnerving that noise precipitates financial fallout as described by Chen (1999). How do noise and its successor news weigh in with regard to the economy?

Economic news remains of constant relevance throughout every season, while other story groups ebb and flow (example: weather, political campaigns, sports, crime, etc) (Moses, 2008). While some news coverage can only get generated following an unexpected event or just apply to a select group of people, economic news affects all population subsets on a continual basis. Also, as discussed previously, the economy constantly fluctuates. This continual evolution means that some type of newsworthy event happens at all times since the economy and its current state makes a difference in the lives of all Americans, either directly or indirectly (Moses, 2008). Therefore, the

possibility that public perception about the economy can originate from media's coverage decisions, rather than actual data yielded by a free capitalist market, becomes disturbing. In addition, research points to the fact that public opinion about the economy can possibly even affect real economic indicators.

A study by Hester and Gibson (2003) analyzed the tone of news coverage about the economy and its effects on public opinion and thus actual economic indicators. This research employed the concept of second-level agenda-setting by the media. In this theoretical framework, framing comes into play rather than simply the amount of media coverage afforded a topic, as in traditional agenda setting (Hester & Gibson, 2003).

Traditional agenda setting theory assumes that the media have the capability to prioritize news items in the minds of the public (Hester & Gibson, 2003). News outlets maneuver the level of importance the audience places on a topic by assigning it a certain amount of coverage and placing that coverage strategically in a lineup of stories (Hester & Gibson, 2003). For example, if the television news discusses a viral epidemic for ten minutes at the beginning of every prime time broadcast, that virus will take precedence over other points of interest in the minds of viewers. According to Hester and Gibson (2003), in this manner the media have the ability to select which topics concern the general population.

For example, Harrington (1989) performed a content analysis of economic coverage on television networks. This study assumed that media's role in shaping public opinion about the economy makes it essential to know if bad economic news gets overemphasized. The research examined television coverage of the unemployment rate,

the inflation rate and the growth rate of Gross National Product from 1973 – 1984. These findings showed that networks gave far more coverage to bad economic news than positive economic indicators (Harrington, 1989).

During the period used in this content analysis, the country's economic climate ranged through two recessions, two sharp increases in inflation, a slowing growth rate and volatile unemployment rates (Harrington, 1989). These diverse opportunities to examine coverage bias confirmed Harrington's theory. For the three factors measured; coverage of the unemployment, inflation and growth rates, and a striking increase in newsworthiness occurred when these data suffered (Harrington, 1989).

A higher unemployment rate would have (on average) 48% more airtime and a 106% greater chance of leading the newscast than would its positive counterpart (Harrington, 1989). A rising inflation would garner 29% more coverage with a 61% better chance of taking the top spot. In a similar fashion, a slowing growth rate would yield 27% more talk time and 61% probability of taking the lead story than would a tale of economic growth (Harrington, 1989).

Harrington's (1989) study undoubtedly concluded that the media favors negative economic data. Though two decades have passed since his work, this groundbreaking study can show us that mass media's slant towards bad economic news has occurred in this country even since the days of the mammoth "big three" television newscasts. The numbers yielded by Harrington make the media's bias so profound that he stated the obvious when questioning why media choose this route. He offered two suggestions – the simple newsworthiness of bad economic times compared to good, or the fact that

networks actually seek out bad news because they want to overemphasize it. As the author noted, the latter could have ramifications on performance of the economy (Harrington, 1989).

Modern research has taken the type of conventional agenda setting illustrated by Harrington (1989) one level further in a theory called second-level agenda setting. In this situation, media outlets actually manage to instruct the public on what opinions to form around a topic covered in the media (Hester & Gibson, 2003). By employing second-level agenda setting, the media not only tell the public what to think about, but how to think about it. Hester and Gibson (2003) believe this type of news coverage may play an even more powerful role in shaping public thought than traditional agenda setting.

Media achieve second-level agenda setting by assigning affective attributes to a factual statement (Hester & Gibson, 2003). This approach takes data and frames it in either a positive or negative manner. An example of a non-framed factual statement would be, "The Dow Jones Industrial Average fell 100 points today." In contrast, "More bad news from Wall Street today" represents a framed statement. Through this technique the media can not only increase the importance of an issue to the public (as in traditional agenda setting), but actually encourage the formation of certain opinions that will come to the front of the public's mind when making a decision about a topic (Hester & Gibson, 2003). By assigning attributes to news stories, the media can influence widespread public opinion of important societal happenings. This allots news outlets power over many facets of human thought, and thus the overall tone of culture.

Though one could argue that second-level agenda setting occurs across all news categories, economic news coverage certainly calls for a thorough examination in light of this theory. Most authors agree on the definitions of traditional agenda setting and second-level agenda setting, and have found that both of these theories exist in media practice. However, other studies (Hester & Gibson, 2003; Harrington, 1989) show that economic news in particular gets framed in a negative light more often than a positive light. Scholars have given attention to the possibility of second-level agenda setting's impact on economic news, and therefore the economy. It becomes important to analyze these findings and determine whether or not they actually could impact the economic cycle.

Hester and Gibson (2003) hypothesized that news coverage about the economy would have a negative frame more often than a positive one. These authors also had the opinion that the negatively framed news coverage would serve as a stronger predictor of public attitude towards the current and future economic conditions than positively framed news coverage. Hester and Gibson (2003) proving that the media had the power to form this type of negative economic outlook would mean the media possessed a larger amount of societal control than previously considered.

The research they conducted to test these theories operated on the assumption that traditional agenda setting existed as a norm for media outlets (Hester & Gibson, 2003). Through a review of literature the authors found that the media emphasized negative economic facts, as a subset of agenda setting theory. Keeping that in mind, Hester and Gibson (2003) assessed economic coverage in the *New York Times* and ABC's nightly

newscast from July 1998 to June 2002. The researchers performed a content analysis of print and broadcast media over a four-year period to see if second-level agenda setting existed in the presentation of economic news coverage. Determining whether news writers applied a positive or negative frame to the instances of economic news items during that time period allowed Hester and Gibson (2003) to examine several theories. They sought to determine if a pattern existed over time, and if so how second-level agenda setting related to the public's view of economic conditions. Furthermore, Hester and Gibson (2003) wanted to see if public perception of economic conditions had an effect on the actual state of the economy.

This research employed time-series analysis with correlation and regression techniques (Hester & Gibson, 2003). This study revealed that statements about the economy got framed in a negative light more than a positive one. In addition, the research showed that negatively framed statements influenced public perception about the economy and its current and future state more than positively framed statements (Hester & Gibson, 2003). These findings supported the view that second-level agenda setting exists consistently in economic news presentations, and that this practice can form perceptions about the performance of the economy. Though Hester and Gibson's (2003) and Harrington's (1989) work do not leave room to question the presence of both traditional and second-level agenda setting in economic news, they fail to address the question that affects audiences most: Why does second-level agenda setting matter? Do the media's actions make periods of economic hardship worse, and perpetuate the depth of economic cycles?

Despite the attempts of Hester and Gibson (2003) and Harrington (1989) to prove that the media can damage the economy, much debate still exists on the impact level of framed economic news items. Some experts insist that public perception about the future state of the economy can actually guide economic indicators (Wu, Stevenson, Chen & Guner, 2001). This would mean that second-level agenda setting used to convince the public of economic downturn can actually perpetuate that scenario. This self-fulfillment of the news would make the bias towards the negative highly unethical. Others suggest, however, that bad news bias in economic media makes a good story and boosts news outlet profitability, but otherwise does not bear on the country's economic status (Stevenson, Gonzenbach & David, 1994).

Inquiries into the influence of economic news coverage take even greater precedence during periods of recession. Moses (2008) suggested that audiences of printed business publications and online, radio and television broadcasts spike during financial crises due to the public's desire to stay abreast of the happenings in the economy and determine what that might mean to personal financial prosperity. If the public receives an overload of economic news that gets presented in a negative frame, second-level agenda setting denotes that audience members will adopt the same pessimism.

Implications of Media Action

In 1994 Stevenson, Gonzenbach and David conducted research around Harrington's (1989) and Hester and Gibson's (2003) findings that media seize every opportunity to sensationalize bad economic news. Recent accusations surrounding media

coverage of the early 1990s recession led the authors to assess the strength of two opposing variables in their research question (Stevenson, et al. 1994). By employing four regression models to determine consumer confidence from July 1988 (the beginning of a major recession) to February 1991, a corresponding content analysis of economic media coverage for the same period, and the United States Department of Commerce's Leading Economic Indicators (LEI) Index, this research sought to answer the question: Does media coverage influence public evaluation of the economy, or do public evaluations of the economy influence media coverage (Stevenson, et al., 1994)?

Stevenson et al. (1994) hoped to take the blame of any negative effects of bad economic news coverage from mass media to the public. Their research concluded that when accounting for the reality of economic cycles, business news stories sought to investigate economic realities of concern to the public. This study maintained that through grassroots interactions public anxiety about the state of the economy created a newsworthy event. When the media reported on this event, Stevenson et al. (1994) surmised that pre-formed attitudes about the economy revealed by members of society permeated the coverage. In other words, Stevenson et al. (1994) determined that public opinion dictated news coverage rather than news coverage determining public opinion, as previously suggested. Of course this study did not consider national economic indicators; only individualized microcosms of factors comprising the unemployment rate and other national statistics.

Though Stevenson et al. (1994) found that media reported on negative economic events as an adherence to public interest, Hester and Gibson (2003) took a different

viewpoint. Their research revealed that media can distort innocuous economic facts into menacing reports of a troubled economy (Hester & Gibson, 2003). The authors noted that these framing episodes occurred subtly and gave audiences the opportunity to generalize framed statements into overall concepts about the state of the economy. In addition, Hester and Gibson (2003) provided evidence that coverage dominated by second-level agenda setting could dictate what audiences will expect for the economy's future.

In contrast to Stevenson et al.'s (1994) benign findings, work by Wu, Stevenson, Chen and Guner (2001) agreed with Hester and Gibson (2003). Wu et al. (2001) suggested that second-level agenda setting has devastating power. This research assumed that news coverage, public perception and actual economic indicators should get examined together since all three of these factors bear upon each other (Wu, et al., 2001). The authors theorized that people pay more attention to economic news during recession and therefore are influenced by it more at those times. In addition, Wu et al. (2001) surmised that economic news coverage actually predicted economic reality.

Through statistical analysis of media stories, public sentiment and economic performance for the period of January 1987 to March 1996, Wu et al.'s (2001) research indicated that public attitude about the state of the economy usually reflects economic news stories during a period of downturn. This widespread bleak perception of the financial system continued even into recovery.

Even more startling, this research revealed that news coverage about the economy most deeply affected people's perceptions about the economy when it slid into recession

(Wu et al., 2001). The authors attributed this phenomenon to the fact that people pay more attention to economic news during a recession, and therefore it can influence them more easily. Unfortunately Wu et al.'s (2001) findings also showed that public sentiment about the economy can accurately predict future economic status. This fact would make the second-level agenda setting investigated in earlier work very harmful to a weakened economy.

The theory of media dependency enforces Wu et al.'s (2001) view that the public adopts a negative view of the economy more easily when they pay the most attention to it, which occurs during a recession. Since the public turns to media for economic news amid a downturn, media dependency theory allows that people who rely on media for information during that time will reflect the worldview expressed in those news stories (Salwen, 1987). A classic study by Salwen (1987) showed that a high correlation existed between the opinions of those who turn to the media for information and the opinions of news reporters to which they expose themselves.

When objectively reviewing the research, one can see evidence of several certainties relating to economic news. First, negative news about the economy will occur more frequently than positive news (Harrington, 1989). Second, when framing happens in media presentations, it more likely will slant towards the negative (Hester & Gibson, 2003). This widespread use of framing points to second-level agenda setting by the media (Hester & Gibson, 2003).

In addition, the public relies more on economic news during a recession (Wu, et al. 2001). Per media dependency theory, those seeking this type of news have a greater

likelihood of being influenced by its negativity (Salwen, 1987). Also, a negative perception by the people will likely lead the real economy to behave badly (Wu et al., 2001)

The media's sway over public economic opinion and the preference towards negative news becomes even more disturbing in light of 2002 research by Ludwig. In this study, Ludwig (2002) hypothesized that many business journalists lacked adequate financial training to perform the task of informing the public about economic news. His theory proved correct in a survey of business journalists and editors along the West Coast. He found that the majority of those informing the public on economic data did not have the financial expertise themselves to properly assess the facts (Ludwig, 2002).

Hester and Gibson's (2003) revelation of assigned attributes in economic reports combined with Ludwig's (2002) indicators of deficient financial knowledge among media means those leading public thought about the economy could easily misinterpret economic indicators. Though Ludwig's (2002) study accounted only for one region of the United States, he noted the lack of a nationwide industry standard for business training among members of the financial media. If largely under-qualified journalists have the power to create public anxiety leading to bank withdrawals, thus potentially damaging the interdependent economy, a defense mechanism should exist.

Influence of Advertising

Fortunately, research shows that increased communication efforts by banks, particularly in the form of non-product advertising, during recession can help ease the

public anxiety created by media reports. This would provide the necessary defense mechanism for banks, one of the economy's backbones. A 1986 study analyzing the communication efforts of two failed Knoxville, Tennessee, banks before, during and after collapse emphasized the power of non-product advertising during recession (DeReimer & Baxter, 1986). The authors noted that banks rely on a positive, trustworthy brand image during periods of financial crisis. The loyalty and trust of bank customers undergoes an extreme test during economic downturn, making the actions of the bank at that time very important (DeReimer & Baxter, 1986). Therefore, it becomes essential for banks to relay the message of the organization's positive aspects amid the crisis period. This reassuring communication with customers must come in the form of advertising about the organization as a whole and its valuable role in the lives of the community and its customers; thus non-product advertising (DeReimer & Baxter, 1986).

DeReimer and Baxter (1986) pointed out that this vital use of non-product advertising during recession contrasts the actions of many bank executives in the spirit of keeping a "low profile" amid financial crisis. The authors noted that bank management teams often undervalue consumer confidence, the benefit of non-product advertising, since its benefits do not have a numerical result. Therefore, the need to utilize non-product advertising to boost consumer confidence can get ignored during times of economic hardship. During these periods more tangible demands on the bank's finances can overshadow the necessity of a public trust campaign in the eyes of bank leadership. For example, the failed Knoxville banks analyzed by DeReimer and Baxter (1986) did not utilize non-product advertising at any point before, during or after the fatal collapses.

A more recent study by Heffernan, O'Neill, Travaglione and Droulers (2008) emphasized the importance of emotional trust between bank customers and the organization to ensure financial success. According to Heffernan et al. (2008), this necessary trust entailed three components: dependability, knowledge, and expectations. Barnes (1997) shared this view after his study on the relationships between customers and financial service providers. This research found that positive emotional feelings of the customer toward the organization as a whole proved the main determinant of success in a banking relationship. A study by Rhee and Mehra (2006) took this information one step further by noting the bank must initiate the relationship with the customer. By taking a proactive stance in communication, the authors found that a bank could garner the trust of its customers, thereby boosting profitability (Rhee & Mehra, 2006). DeReimer and Baxter (1986) suggested the goals of building trust and relational strength could be achieved through non-product advertising.

A considerable amount of research also exists around the value organizations can add by increasing or at least maintaining advertising expenditures during recession. While this information is not specific to banks, the principles have universal purpose. McAlister, Srinivasan and Kim (2007) conducted a study to assist advertisers in quantifying the commodity of organizational reputation and trust. This research covered multiple industries over a 22-year period. McAlister, Srinivasan, and Kim (2007) found that increasing advertising expenditures created acute brand identity in the marketplace. Therefore, the organization's stock price became insulated from downturns in market activity due to the positive relationship fostered with its publics through non-product

advertising (McAlister, Srinivasan & Kim, 2007). In this manner, the authors theorized that advertising could catch the attention of management when budget cuts catalyzed the view of external communications departments as dispensable.

Increased advertising spending not only lowers the risk of stock plummet for a publicly traded company but also provides the key to recession survival for many institutions (Kamber, 2002). Kamber's research found that advertising spending not only boosts short term profits, it almost guarantees higher levels of growth following the recession's end . Furthermore, he found that the relationship between advertising spending and positive growth has the most strength during times of economic crisis. Kamber (2002) attributed this pattern to the public's desire for information during periods of financial stress and the advertiser's opportunity to reassure customers while the competition's communication efforts lied dormant due to budget cutbacks.

Although increased communication by banks could ease a great deal of the recession woes faced by financial institutions, history reveals that the opposite generally occurs. Communication budgets and staff across all industries often fall prey to cutbacks early during a financial crisis. Picard's (2001) study found a consistent decrease in advertising expenditure of 5% when gross domestic product fell by just 1%. This research accounted for nine developed countries over a period of 12 years (Picard, 2001).

Kamber (2002) also acknowledged the tendency of management to cut communication budgets before other areas during periods of economic hardship. He attributed this decision to the view of advertising as a non-essential expense. Kamber's (2002) research supported his theory, citing the steady decline of communication

spending straight through a period of recession and into the beginning of economic upswing.

A classic study by Hughes (1970) correlated with Kamber's (2002) view that organizational management tended to view communication as a dispensable area during recession. However, Hughes (1970) actually investigated the relationship of advertising by banks during recession and the influence that communication can have on deposit levels. He found that advertising by banks will increase the volume and amount of deposits. In addition, he noted that advertising can serve to slow or stop a decline in deposits. By optimizing an advertising strategy, Hughes (1970) noted that banks can rely on communication as a means to manage influxes of profit into a banking institution.

The combination of these factors encourages investigation into the actions and attitudes of bank management teams toward communication spending during recession. Bank runs can incite panic-induced economic worsening, and media have the power to spark fear in bank customers. Government action falls short of effective intervention, leaving banks to restore customer confidence. Though increased or maintained communication spending could combat the problem of mass withdrawals possibly leading to insolvency, previous literature alludes to banks' non-acceptance of this action plan. For that reason, research is required to determine whether bank management teams cut external communication budgets and staff during recession, and whether they see the necessity and combative power of reaching their customers during a financial crisis.

Therefore, this study will seek to determine:

RQ1: Do bank management teams cut external communication budgets and team members early and drastically during a recession?

RQ2: Do bank management teams see the necessity of increased external communication efforts during a recession?

CHAPTER IV

Methodology

This research study was designed to answer the research questions through the use of a 20-question survey of 100 bank managers. Due to the apparent misunderstanding of the importance of communication during recession revealed through a review of literature, research had to address whether or not this actually existed in practice. A survey of bank managers who control communication spending and staff members provided the ability to gauge overall opinion towards this issue through collective results.

At the onset of the survey, respondents viewed definitions of key terms used throughout the questionnaire:

- Most recent recession period -- September 2007 – March 2010
- External Communication -- including but not limited to customer-oriented marketing, advertising public relations, website development, events, promotions, newsletters, or any other type of outwardly-driven attraction or retention tool
- Communication Staff Member/s -- any personnel who apply 25% or more of job function to the above listed external communication efforts

The first eight survey questions assessed the timing and severity of the communication cutbacks at banks during the most recent recession. Bank managers had to immediately meet a qualification question that confirmed their role as including some degree of control over external communication or staff members. The survey called for

discontinuation after the first question if the respondent's position did not include that type of authority.

The next two questions ensured that the respondent had made a decision to enact cutbacks, including external communication spending, during the most recent recession. If the respondent did not take this course of action, the survey asked them to proceed to question nine, where their attitudes towards external communication spending in general during recession were measured. For bank managers who did cut external communication spending and/or other departments during the most recent recession, questions four through eight determined the speed and severity of the external communication cuts as compared to other departments.

Questions nine through 20 employed a Likert Scale to determine the value bank managers assigned to external communication during recession. Media effects questions also sought to determine whether or not respondents realized how heavily their customers leaned on the media for financial news. Finally, the Likert Scale was used to measure if bank managers understood the risk of a news-spurred bank run and the power of non-product advertising to mitigate that risk.

Potential respondents received the survey via email through the online compilation tool www.surveymonkey.com. Recipients of the survey had two weeks for completion, with a reminder emailed to non-responders once per week for the duration of the survey period. This software allowed participants to confidentially complete and return the survey online. Upon closure of the survey period, www.surveymonkey.com presented the results to each question in a percentage format. Manual calculations and observations,

in addition to computer-generated chart data, helped analyze and prepare the results for presentation.

The pool of potential respondents came from the Tennessee Bankers Association website (www.tnbankers.org). This site includes a list of all Tennessee banks and web addresses for each. The website of each bank provided the manager's name and email address. If this information was not presented on the individual bank's website, the bank was contacted via telephone to gather the email address of its manager.

Bank managers' concern about confidentiality could have an effect on the results of this study. However, both the body of the survey email and the introduction to the survey expressed the emphasis placed on keeping the results confidential. Other variables that could have an effect on the study results are the bank manager's time or lack thereof to complete the survey and the bank manager's understanding of the survey definitions.

CHAPTER V

Results

The first section of the survey measured the severity and timing of external communication spending cutbacks at banks during the most recent recession. The respondents unanimously reported having some degree of control over this portion of business operations. A startling 76.5% reported cutting external communication spending (including staff members) during the most recent recession, with 42.9% cutting no other area of business operations besides external communication.

On a slightly more encouraging note, of the 57.1% of respondents who did cut other areas of business operations besides external communication, 77.7% reported cutting at least one area of business operations before external communication. Most notably positive, 33.3% of those bank managers who scaled back other areas before communication cut four or more departments before touching external communication spending, thereby noting a high priority level for that department. Eleven point one percent cut three departments and 33.3% cut one department before external communication. Table 1 illustrates the succession of departmental cutbacks during the most recent recession as compared to external communication.

Table 1

Number of departments cut before external communication:

Number of departments with cuts before external communication:	Percent of respondents who cut this number of departments before external communication:	Number of respondents who cut this number of departments before external communication:
0	22.2%	2
1	33.3%	3
2	0%	0
3	11.1%	1
4+	33.3%	3

Note. Includes only respondents who cut an area of operations besides external communication in the most recent recession.

However, when asked to put these figures on a quarterly scale, the results indicated that the timing of external communication cutbacks occurred earlier in the recession than the budget reduction for other departments (as noted in Appendix A). In the fourth quarter of 2007, the beginning of the most recent recession, 16.7% of the respondents reported the first cut in external communication spending though no other departments began receiving cuts during that period of time.

In the first and second quarters of 2008, 16.7% reported the start of an external communication reduction, with only 12.5% of the respondents starting on another department by that time. The third and fourth quarters of 2008 showed an even bigger slant towards reducing external communication spending before other departments: 41.7% compared with other departments' 25%.

By the first and second quarters of 2009, the respondents had been forced not only to continue cutting external communication spending (25% of them report doing the first cutback in that department during that time period,) but to spread the cuts more evenly through business operations, with 50% beginning cuts in other areas during the first half of 2009. By the third and fourth quarters of 2009, 12.5% were cutting other areas though the cuts in external communication appear to have stopped. The first quarter of 2010 revealed no cuts for external communication or other areas.

Although the research shows that bank managers cut external communication spending early during a recession, the cuts do not seem to reach a drastic level, as noted by the fact that the highest reported level of 41%-60% is considered moderate in the scope of this study (as noted in Appendix B). Forty-six point two percent of the respondents reported a mild (less than 20%) reduction in the amount of overall spending, with half of the respondents reporting only mild cuts in external communication staff positions.

Thirty-eight point five percent of the bank managers surveyed had a 21%-40% cut in overall spending, with 7.1% of them having staff reduction in that percentage range. Only 15.4% of the respondents reported a moderate cutback in overall spending at a range of 41%-60%. None of the respondents reported a decrease of staff at the moderate level.

The next section of the survey measured bank manager's attitudes towards external communication spending during recession. Overall, bank managers showed a realization of the importance of this expenditure during a recession. Respondents were

evenly split (33.3% agreed and the same number disagreed) as to whether or not external communication with customers during a recession would have an impact on the relationship with those customers during or after the recession.

Only 6.7% strongly agreed that cutting external communication spending during a recession would have no affect on customer relationships. Another twenty percent felt neutral on this point while 6.7% strongly disagreed that this would have no effect on customer relationships. Table 2 shows the percentage of respondents who said their bank could afford to cut external communication spending during recession.

Table 2

Bank manager's feelings about whether or not customer relationships would be affected if their bank could not afford external communication spending during recession.

Respondent's feeling:	Percent of respondents with this feeling:	Number of respondents with this feeling:
Strongly Agree (would not affect at all)	6.7%	1
Agree	33.3%	5
Neutral	20%	3
Disagree	33.3%	5
Strongly Disagree (would greatly affect)	6.7%	1

However, a majority of 46.7% did not agree that market share could remain steady if competitors continued external communication efforts while their bank did not. This coincided with 73.4% who felt that recovery would be quicker if their bank at least

maintained external communication spending throughout the recession period. Furthermore, 46.7% felt that communicating with customers during an economic upswing was not more important than doing so during a recession. Table 3 scores bank management's attitudes toward communicating with customers amid periods of economic difficulty.

Table 3

Bank manager's attitudes towards external communication during recession.

Respondent's feeling:	Can my bank maintain market share if we cut external communication spending while our competitors do not?	Does my bank have a greater chance for growth during recovery if we at least maintain external communication during the recession period?	Is communication with customers during recession less important than communicating with them during economic upswings?	Is communication with customers during recession more important than communicating with them during economic upswings?
Strongly Agree	0% (n=0)	26.7% (n=4)	0% (n=0)	13.3% (n=2)
Agree	26.7% (n=4)	46.7% (n=7)	13.3% (n=2)	26.7% (n=4)
Neutral	26.7% (n=4)	20% (n=3)	13.3% (n=2)	46.7% (n=7)
Disagree	40% (n=6)	6.7% (n=1)	46.7% (n=7)	13.3% (n=2)
Strongly Disagree	6.7% (n=1)	0% (n=0)	26.7% (n-4)	0% (n=0)

Bank managers surveyed seemed to be aware that media reports emphasizing poor economic indicators could affect the deposit levels at their bank. Sixty percent felt that these types of negative news stories could directly impact their institution. Table 4 illustrates the awareness of bank managers that negative economic news stories can cause a drop in deposit levels at their bank.

Table 4

Bank managers' understanding of media reports on deposit levels.

Could media reports emphasizing poor economic indicators affect the deposit levels at my bank?	Percent of respondents with this feeling:	Number of respondents with this feeling:
Strongly Agree (deposit levels could not be affected)	0%	0
Agree	26.7%	4
Neutral	6.7%	1
Disagree	60%	9
Strongly Disagree (deposit levels could be affected)	6.7%	1

However, an alarming 60% of respondents also felt that their customers' confidence levels in the safety of their assets would remain steady despite news stories pointing to a major financial crisis. Even more surprising, 40% of bank managers surveyed felt that customers gained information about the solvency of their bank from reading that bank's financial statements rather than from media sources. Table 5 shows

the tendency of bank managers to overestimate customer confidence levels amid recession and to misunderstand where customers actually get information about the bank's solvency.

Table 5

Bank manager's awareness of source and impact of financial news.

Respondent's feeling:	Do depositors at my bank feel comfortable with the safety of their assets during recession despite news stories pointing to a major financial crisis?	Do my bank's customers rely on actual financial reports rather than business news stories to determine the safety of their personal assets?
Strongly Agree	0% (n=0)	0% (n=0)
Agree	60% (n=9)	40% (n=6)
Neutral	0% (n=0)	20% (n=3)
Disagree	26.7% (n=4)	33.3% (n=5)
Strongly Disagree	13.3% (n=2)	6.7% (n=1)

The respondents were evenly split on whether or not insolvency had to actually occur or be imminent for a bank run to occur. However, a majority of 46.7% felt that FDIC coverage would prevent mass withdrawals during a recession and 40% felt that non-product advertising did not represent the best use of budget. Table 6 displays the bank manager's comfort level with FDIC insurance as a defense mechanism against runs, in addition to their dismissal of non-product advertising as a relationship building tool.

Table 6

Bank managers' attitudes regarding bank runs and prevention.

Respondent's feeling:	Can bank runs occur only in the case of potential or realized insolvency, even during recession?	Will FDIC insurance prevent mass withdrawals during a financial crisis?	Is non-product advertising a poor choice for budget?
Strongly Agree	0% (n=0)	13.3% (n=2)	6.7% (n=1)
Agree	40% (n=6)	46.7% (n=7)	40% (n=6)
Neutral	20% (n=3)	0% (n=0)	6.7% (n=1)
Disagree	40% (n=6)	33.3% (n=5)	26.7% (n=4)
Strongly Disagree	0% (n=0)	6.7% (n=1)	20% (n=3)

CHAPTER VI

Discussion

Research question one, "Do bank management teams cut external communication budgets and team members early and drastically during a recession" called for further investigation based on previous research alluding to the fact that bank managers did in fact reduce external communication before other departments during economic crisis (Picard, 2001; West, 2008).

This study, patterned to answer that question, did in fact indicate that external communication spending received cutbacks in the most recent recession before other departments and almost immediately following the onset of macroeconomic trouble. This aligns with the research of Picard (2001) that showed communication spending falling at a faster rate than economic conditions after decline begins. However, based on the study by Kamber (2002), banks should at least maintain communication spending during recession in order to help insulate the bank from the effects of recession.

Therefore, the research conducted shows us that banks tend to dispose of one of the survival tools they could use to combat recession at the first sign of economic problems. This answered research question two, "Do bank management teams see the necessity of increased external communication efforts during a recession" by affirming that managers often overlook and underestimate this resource.

McAlister et al. (2007) and DeReimer and Baxter (1986) noted that organizations could use non-product advertising to foster relationships with customers and lessen

recession effects. However, since external communication suffers reduction early, this leaves banks unprotected for the duration of the recession period. Furthermore, the research conducted for this study showed that bank management largely viewed non-product as a waste of budget. With these budgets falling under even more scrutiny during recession and an overall lack of value for the external communication process, it comes as no surprise that external communication departments suffered premature cutbacks.

As Heffernan et al. (2002) found, the success of a bank relies on a positive relationship with customers. If external communication holds the key to fostering this type of relationship, a disconnect exists between the current attitudes of bank management and the attitudes necessary for optimal success. Bank management indicated in this research for this study that they lacked an awareness of the value of building customer relationships through communication. They did not feel strongly that ceasing external communication during recession would hurt them, and they also did not see moving forward with external communication during recession as vital.

Madies (2006), Bougheas (1999) and Calomiris and Mason (1997) showed us that contagious bank runs can incite from unfounded panic and FDIC coverage will not prevent those types of occurrences. Furthermore, Chen (1999), Hester and Gibson (2003) and Harrington (1989) found that an overemphasis of bad economic news can trigger this type of activity. Wu et al. (2001) noted that people not only pay more attention to economic news during recession, but show more susceptibility to its effects. This influence on viewers of media compounds when assessing the fact that economic news coverage has been proven to predict economic reality (Wu et al., 2001).

However, as the research for this study showed, bank managers fail to realize these dangers. Respondents felt that their customers looked at actual financial data about the bank rather than media reports about the overall economy to determine their confidence levels in the safety of their assets. In addition, the bank managers surveyed indicated that they felt FDIC coverage would protect them if a run did occur, which according to research is not true.

CHAPTER VII

Conclusion

Discovering the attitudes of bank management towards external communication spending during recession has uncovered many opportunities for future growth and improvement. Based on these findings, bank executives need to work more closely with their external communication teams, especially during times of financial crisis. Since customers do rely on the news media and in some cases react to negative reports by withdrawing bank funds, it becomes essential for bank management to have an awareness of the current news reports reaching their customer base. Bank management can then respond accordingly, shielding themselves from unexpected withdrawals that occur as a reaction to news reports.

To effectively mediate negative news reporting, bank management must also acknowledge that FDIC coverage and the actual solvency of their bank will not prevent a run. By showing that bank leaders did in fact believe that they had control when in fact they did not, this study calls for a heavier reliance on external communication efforts by banks. Combined with following news reports more closely, banks can proactively mitigate risk by raising external communication levels during declining economic situations.

This change in action and attitude by bank management could benefit external communication teams in the banking industry. Following an overall increase in their value to management, more job stability and funding could happen for those departments.

In addition, the banking industry as a whole could enjoy greater stability and control over finances without the constant threat of unpredictable and severe recession effects.

A series of studies expanding on this topic could eventually have some effect on media practices. Since expectations about the economy prove self-fulfilling, the second-level agenda setting Hester and Gibson (2003) describe actually has the power to damage the economy, and thus the welfare of the country. During periods of recession this can deepen an existing crisis and make recovery more challenging.

Also, the government's efforts at ceasing and preventing financial panic have certainly helped but failed to provide a solution. With an unregulated media to incite damaging results for banks, one must question the ability of banks to defend themselves against the media's preference towards negative economic reporting. If banks do not utilize the tools at their disposal to combat recession-period press, and FDIC attempts at quelling fear have proven unsuccessful, this gives the media frightening amounts of power to damage the economy at whim. The fragility denoted by this unsettling fact proves the economy subject to unpredictable external factors. Therefore, this potential impact on the welfare of the country by the media makes the type of second-level agenda setting described by Hester and Gibson (2003) unethical.

Limitations of this study included a low response rate, with only 20 members of bank management serving as the respondent pool. This could be remedied in future studies by increasing the potential respondent pool and allowing a longer period of time for response, as this study only allotted a two-week window.

For further study this methodology could expand to include analysis from the recessions of 1990-1991 and 2000-2001. Conducting a time-series analysis to see if the same managers consistently cut communication across various recessions would also prove interesting. This research method could also extend to other states to determine if actions and perceptions varied across geographic areas.

In conclusion, this study was conducted to investigate the tendencies of bank management during recession alluded to in research of previous scholarly work. The survey results answered both research questions in the anticipated manner: Bank management did cut external communication teams early and did not view them as a crucial part of recession survival. In addition, bank managers showed a lack of understanding about the sources of: customer information, overall economic assessment and the confidence level in their assets. Respondents felt these aspects of the customer relationship could be managed with FDIC insurance and strong financial results from the bank. However, since research indicates those methods will not spare banks from recession effects (namely runs), an increased level of knowledge about how to actually keep customer confidence through external communication during times of economic trouble presents a huge growth opportunity as a result of this study.

CHAPTER VIII

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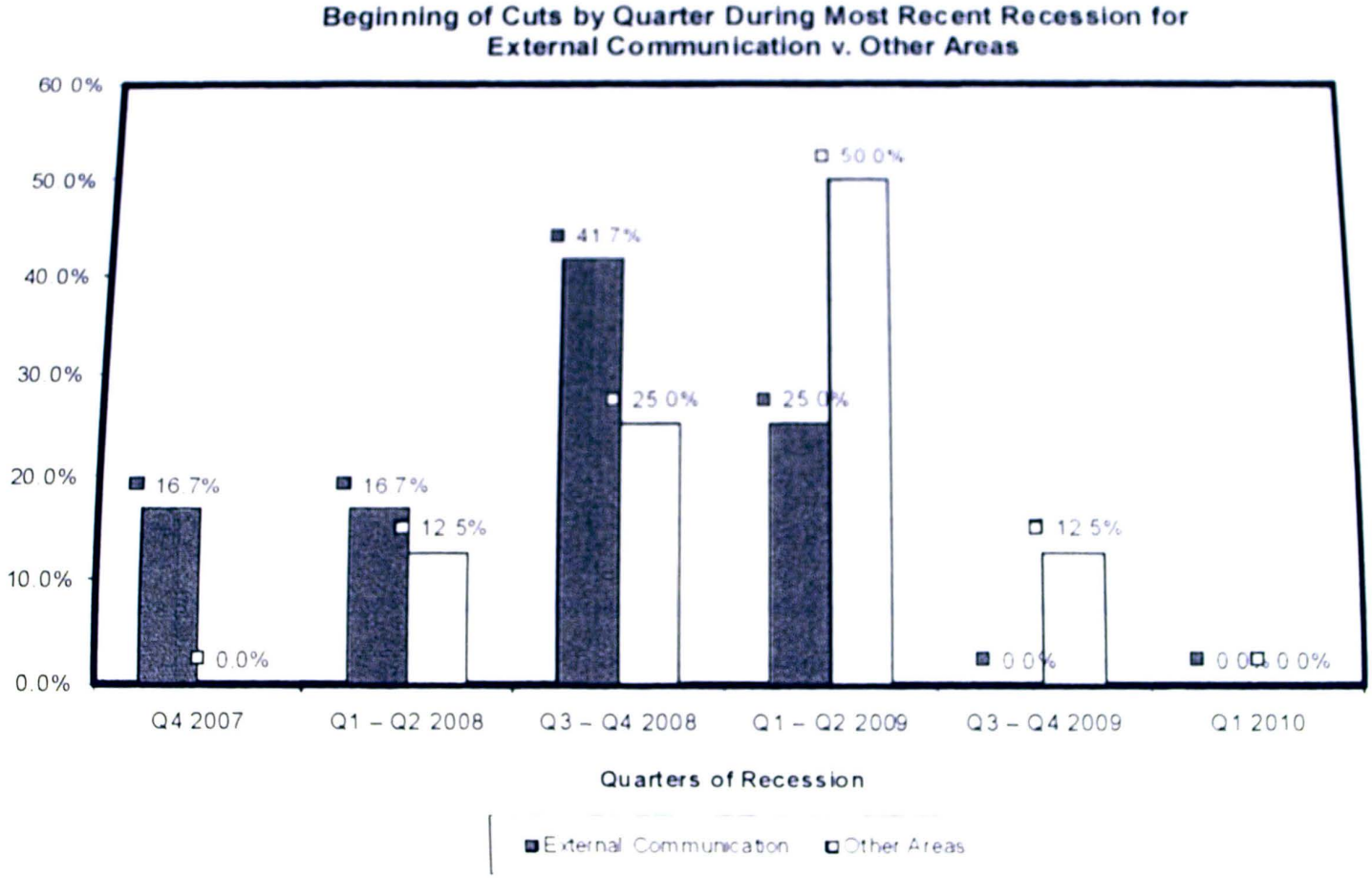
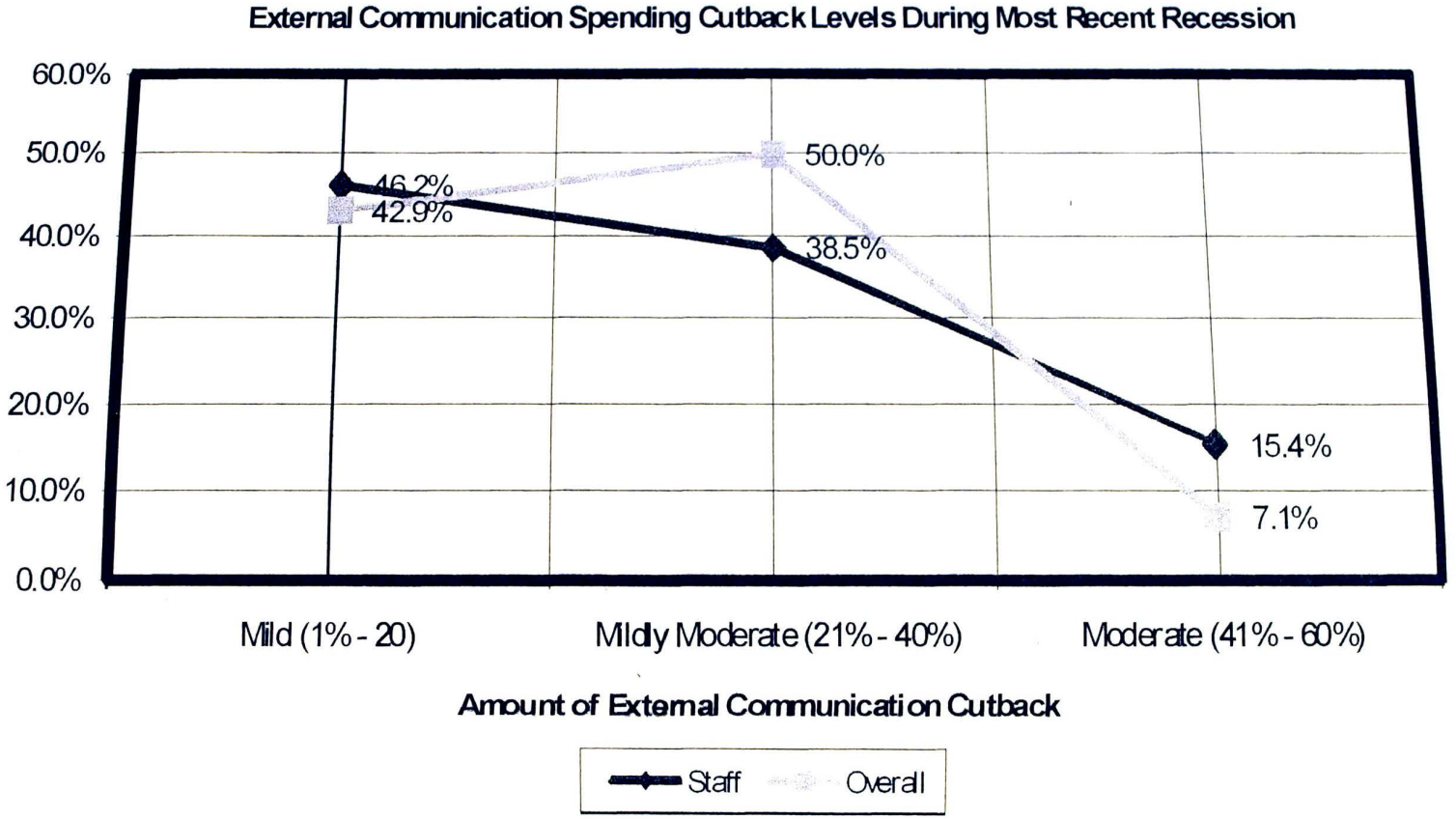
Appendix A


Beginning of Cuts by Quarter During Most Recent Recession for External Communication v. Other Areas
60.0%
50.0%
40.0%
30.0%
20.0%
10.0%
0.0%
16.7%
0.0%
16.7%
12.5%
41.7%
25.0%
25.0%
50.0%
0.0%
12.5%
0.0%
0.0%
Q4 2007
Q1 – Q2 2008
Q3 – Q4 2008
Q1 – Q2 2009
Q3 – Q4 2009
Q1 2010
Quarters of Recession
External Communication
Other Areas

Appendix B


External Communication Spending Cutback Levels During Most Recent Recession
60.0%
50.0%
40.0%
30.0%
20.0%
10.0%
0.0%
46.2%
42.9%
50.0%
38.5%
15.4%
7.1%
Mild (1% - 20)
Mildly Moderate (21% - 40%)
Moderate (41% - 60%)
Amount of External Communication Cutback
Staff
Overall

Appendix C

Survey Questions

Bank Manager and Recession Period Communication Survey – March 2010

This survey consists of 20 questions, with an estimated completion time of 10 minutes. If at any point during the survey you choose not to complete it, you may close your browser and none of your answers will be recorded.

If you choose to complete this online survey, your answers will be compiled using www.surveymonkey.com, and then those results will be anonymously sent to the researcher. Your name and contact information will not be disclosed to the researcher upon return of the completed survey.

Key definitions:

Most recent recession period: September 2007 – March 2010

External Communication: including but not limited to customer-oriented marketing, advertising public relations, website development, events, promotions, newsletters, or any other type of outwardly-driven attraction or retention tool

Communication staff member/s: any personnel who apply 25% or more of job function to the above listed external communication efforts

Please answer the questions below based on your current position as a bank manager:

1. In your current role as a bank manager, do you have any degree of control over external communication spending or staff members?
    a. Yes (if yes, please proceed through survey)
    b. No (if no, thank you for your time and please discontinue survey)

2. In your role as a bank manager, at any time during the most recent recession have you taken part in a decision to cut external communication spending or staff positions?
    a. Yes (if yes, please proceed to question three)
    b. No (if no, please proceed to question nine)

3. In your role as a bank manager, have you taken part in a decision during the most recent recession to cut any area of business operations (including staff positions) other than external communication?
   a. Yes (if yes, please proceed to question four)
   b. No (if no, please proceed to question six)

4. The number of business segments that experienced cuts before external communication during the most recent recession was:
   a. 0
   b. 1
   c. 2
   d. 3
   e. 4+

5. A budget cut in any segment of business besides external communication first occurred during which period of time?
   a. Q4 2007
   b. Q1 – Q2 2008
   c. Q3 – Q4 2008
   d. Q1 – Q2 2009
   e. Q3 – Q4 2009
   f. Q1 2010

6. External communication spending and/or staff member/s were first cut during which period of time?
   a. Q4 2007
   b. Q1 – Q2 2008
   c. Q3 – Q4 2008
   d. Q1 – Q2 2009
   e. Q3 – Q4 2009
   f. Q1 2010

7. To what degree would you qualify the cutback in overall external communication spending (excluding staff members) at your bank during the most recent recession?
   a. Mild (1% - 20%)
   b. Mildly moderate (21% - 40%)
   c. Moderate (41% - 60%)
   d. Heavily moderate (61% - 80%)
   e. Heavy (81% - 100%)

8. To what degree would you qualify the cutback in communication staff member positions at your bank during the most recent recession?
    a. None (0% total staff members)
    b. Mild (1% - 20% total staff members)
    c. Mildly moderate (21% - 40% total staff members)
    d. Moderate (41% - 60% total staff members)
    e. Heavily moderate (61% - 80% total staff members)
    f. Heavy (81% - 100% total staff members)

Answer the remaining questions by choosing the category that most accurately describes your feelings:

9. If my bank cannot afford external communication spending during a recession, it will not affect the relationship we have with our customers during or after the recession.
    a. Strongly agree
    b. Agree
    c. Neutral
    d. Disagree
    e. Strongly disagree

10. My bank can maintain market share if we cut external communication spending while our competitors do not.
    a. Strongly agree
    b. Agree
    c. Neutral
    d. Disagree
    e. Strongly disagree

11. My bank has a greater chance of growth during the economic recovery following recession if we at least maintain communication during the recession period.
    a. Strongly agree
    b. Agree
    c. Neutral
    d. Disagree
    e. Strongly disagree

12. Communicating with customers during a recession is less important than communicating with them during economic upswings.
    a. Strongly agree
    b. Agree
    c. Neutral
    d. Disagree
    e. Strongly disagree

13. Communicating with customers during a recession is more important than communicating with them during economic upswings.
    a. Strongly agree
    b. Agree
    c. Neutral
    d. Disagree
    e. Strongly disagree

14. My bank's customers will remain loyal through a recession even if we do not communicate with them during that period of time.
    a. Strongly agree
    b. Agree
    c. Neutral
    d. Disagree
    e. Strongly disagree

15. The depositors at my bank feel comfortable with the safety of their assets during a recession despite news stories pointing to a major financial crisis.
    a. Strongly agree
    b. Agree
    c. Neutral
    d. Disagree
    e. Strongly disagree

16. My bank's customers rely on actual financial reports rather than business news stories to determine the safety of their personal assets.
    a. Strongly agree
    b. Agree
    c. Neutral
    d. Disagree
    e. Strongly disagree

17. Even amid periods of recession, bank runs can only occur in the case of potential or realized insolvency.

a. Strongly agree
b. Agree
c. Neutral
d. Disagree
e. Strongly disagree

18. The FDIC insurance my bank offers will prevent mass withdrawals during a financial crisis.
    a. Strongly agree
    b. Agree
    c. Neutral
    d. Disagree
    e. Strongly disagree

19. Spending money on external communication must have a product behind it; non-product advertising simply to enhance the bank's image does not represent the best use of budget.

    a. Strongly agree
    b. Agree
    c. Neutral
    d. Disagree
    e. Strongly disagree

20. Media reports emphasizing poor economic indicators will not affect the deposit levels at my bank.

    a. Strongly agree
    b. Agree
    c. Neutral
    d. Disagree
    e. Strongly disagree

The Department of Communication at Austin Peay State University supports the practice of protection for human subjects participating in research. The following information is provided to help you decide whether you wish to participate in the present study. You retain the right to refuse to participate in this study. You should be aware that even if you consent to participate in this study, you may withdraw from this study at any time without consequence. If you choose to withdraw from this study, it will not affect your relationship with this department, the services it may provide to you, or Austin Peay State University.