

Madoff Madness: A Textual Analysis of the SEC's response to the Madoff Ponzi Scheme

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## ACADEMIC ABSTRACT

On December 11, 2008, the financial world was in a panic as the United States Securities and Exchange Commission (SEC) announced the arrest of Bernard L. Madoff of Bernard L. Madoff Investment Securities, LLC, for orchestrating a \$65 billion Ponzi scheme. An investigation took place into Madoff's practices, and as a result, it was revealed the SEC failed to catch Madoff years earlier as a result of its business practices. After this became known, the SEC faced reputational harm. This qualitative analysis seeks to discover through identification and analysis of themes and sub-themes of response strategies, the extent to which the SEC applied Situational Crisis Communication Theory (SCCT) in its crisis response, in order to examine SCCT's merit as a theory in government crisis communication research. This study also offers additional response strategies imposed by the SEC to suggest further expansion of SCCT in a government context.

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## GENERAL AUDIENCE ABSTRACT

On December 11, 2008, Bernard L. Madoff, of Bernard L. Madoff Investment Securities, LLC, was charged by the United States Securities and Exchange Commission (SEC) for his role in a \$65 billion fraudulent scheme. During an investigation into Madoff's business practices, it was revealed that the SEC overlooked many red flags that could have caught Madoff years earlier. As a result, the SEC faced reputational harm. This study examined the SEC's crisis response to the public following the news of Madoff's arrest by applying a crisis communication theory to discover "best practices" for government agencies when dealing with a preventable crisis. This study also offers suggestions to further expand crisis communication research and crisis response strategies in a government communication setting.

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## **Chapter 1: Madoff Madness: A Textual Analysis of the SEC's response to the Madoff Ponzi Scheme**

On December 11, 2008, Bernard (Bernie) L. Madoff, founder of Bernard L. Madoff Investment Securities LLC, was charged by the United States Securities and Exchange Commission with securities fraud for a multi-billion dollar Ponzi scheme<sup>1</sup> (OIG-509, 2009). Shortly after the charges were presented against Madoff, it was discovered that the SEC overlooked major warnings that could have caught Madoff years earlier. How the agency responded could reveal a lot about the level of responsibility the organization has, how it rights its wrongs, and how it responds and educates its publics and its stakeholders when a crisis arises. Examining the SEC's response to this crisis can also reveal how crisis is handled in the federal government, how it should be handled, or what can be learned from the crisis and the way the agency responded.

Crises occurring in organizations are not rare, and with the increase in technology and the availability to discover information with the use of hand-held devices, organizations face even more scrutiny from the public when a scandal or crisis is discovered. It is also inevitable that at some point in time, an organization will face some sort of crisis that risks damaging relationships that exist between the organization and its stakeholders. Crisis has been defined as “a threat or challenge to an organization's legitimacy-stakeholders question if an organization is meeting normative expectations” (Coombs & Holladay, 1996, p. 281). A crisis can harm an organization, especially its reputation with its external stakeholders, if the organization does not respond correctly or does not have effective crisis management. One of the ways organizations can limit

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<sup>1</sup> A ponzi scheme is a type of investment fraud that uses money collected from new investors to pay existing investors (“Ponzi Scheme,” 2018).

the impact a crisis can have on an organization is by implementing effective crisis management and developing responses for any crisis that the organization could encounter. The study of crisis management has grown in the field of communication. In the mid-1990s, Coombs (1995) decided to place a focus on organizational response and the attribution of responsibility following a crisis situation. Situational crisis communication theory, (SCCT) was created to provide an understanding of how to “maximize the reputational protection afforded by post-crisis research” (Coombs, 2007, p. 163). While many scholars have tested this theory through various studies, research still needs to be conducted to test the relationships between the two clusters originally created by Coombs (1995): crisis type, and crisis response. How these two clusters contribute to image restoration and an organization’s reputation are additional areas of the theory that need additional scholarly investigation.

Gaps in literature suggest that crisis research needs expansion in the government field especially due to the third party regulation government agencies provide and the federal government’s role in fostering public confidence. To address this gap in literature, this study analyzed the public responses of the SEC to the Bernie Madoff scandal, which argues for SCCT’s application in the government sector and offers new implications for PR practitioners who work for government agencies. This particular study also differs from previous SCCT studies because it examined preventable crisis that was not directly caused by members of SEC, but did impact the public’s perception of the agency because of the agency’s responsibility to promote public confidence in the stock market, which the SEC failed to do during the course of the Madoff Ponzi scheme. The effects of the Madoff Ponzi scheme on the SEC were detrimental, especially to the agency’s reputation.

## **The Bernie Madoff Ponzi scheme**

Bernie Madoff was the founder of Bernard L. Madoff Investment Securities LLC, an investment firm that became famous for its hedge fund<sup>2</sup> operations, making Madoff one of the most successful men on Wall Street at the time (Ferrara & Lameau, 2012). Madoff quickly became close with many officials at the SEC due to his large financial background and success. In 2000, Harry Markopolos, the famous whistleblower in the case and the leader of the investigation into the practices of Madoff, began reporting concerns to the SEC regarding Madoff's business practices (Markopolos, 2010, p.3). As an employee at a rival firm, Harry Markopolos conducted research into Madoff's success and discovered that Madoff's investment firm had losing months only four percent of the time (Ferrara & Lameau, 2012), revealing either the likelihood of illegal insider market trading or a Ponzi scheme, which is a type of investment fraud which takes money collected from new investors and uses it to pay existing investors ("Ponzi Scheme," 2018). Madoff's hedge fund exhibited classic "red flags," or warnings, for Ponzi schemes: high returns with little or no risk, overtly consistent returns, unregistered investments, unlicensed sellers, secretive complex strategies, issues with paper work, and difficulty receiving payments ("Ponzi Scheme," 2018).

After the discovery of Madoff's unethical and illegal actions, Markopolos reported these findings to the SEC five different times (Markopolos, 2010, p. 3). Markopolos revealed six red flags to the Commission that should have raised serious questions about the legitimacy of Madoff's operations (Markopolos, 2010, p. 59). There was an investigation or examination into Madoff by the agency but no disciplinary action was taken by the SEC (Ferrara & Lameau, 2012). Markopolos made numerous complaints to the SEC in both 2000 and 2001 but it was not

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<sup>2</sup> A hedge fund is a type of investment which uses questionable investment practices to invest money in an effort to make a positive return ("Hedge Funds," 2018).

until 2008 that the Ponzi scheme was discovered by the agency and Madoff was charged (OIG-509, 2009, p. 2). On December 11, 2008, the SEC charged Madoff with securities fraud for a multi-billion dollar Ponzi scheme that he “perpetrated on advisory clients of his firm” (OIG-509, 2009, p. 1). The SEC found Bernie Madoff guilty of violating anti-fraud provisions of the Securities Act of 1933, the Securities Exchange Act of 1934, and the Investment Advisers Act of 1940. He was also indicted for criminal offenses by the U.S. Attorney’s Office for the Southern District of New York (OIG-509, 2009, p. 1). On June 29, 2009, Madoff was sentenced to serve 150 years in prison for his actions. During his trial, Madoff revealed his surprise that the SEC had not caught up with the claims made against him earlier (Ferrara & Lameau, 2012). Soon after Madoff was charged, the SEC discovered that Madoff’s actions were continuously brought to the attention of employees at the agency but were never recommended for action.

On December 16, 2008, five days after the announcement of Madoff’s arrest, former SEC Chairman Christopher Cox contacted the agency’s Office of Inspector General (OIG) to investigate such claims brought to the attention of the SEC and why SEC staff did not take those claims seriously (OIG-509, 2009, p.1). The SEC was investigated due to its agency work to protect investors and enforce market integrity, which are both important to its mission.

### **United States Securities and Exchange Commission**

The United States Securities and Exchange Commission was established by Congress in 1934 during the Great Depression as a result of the Securities Act of 1933 and the Securities Exchange Act of 1934 (“What We Do,” n.d.). It was created to “restore investor confidence in our capital markets by providing investors and the markets with more reliable information and clear rules of honest dealing” (“What We Do,” n.d.). The mission of the SEC is to “protect

investors, maintain fair, orderly, and efficient markets, and facilitate capital formation” (“What We Do,” n.d). The SEC also has the responsibility to:

interpret and enforce federal securities laws; issue new rules and amend existing rules; oversee the inspection of securities firms, brokers, investment advisors, and ratings agencies; oversee private regulatory organizations in the securities, accounting and auditing fields; and coordinate U.S. securities regulation with federal, state, and foreign authorities (“What We Do,” n.d.).

Part of the role of the SEC is to investigate claims regarding unethical and fraudulent behavior in financial institutions, which the agency failed to do during the Bernie Madoff Ponzi scheme. During the investigation of the Bernie Madoff \$65 billion Ponzi scheme, the SEC acknowledged many failures in how it conducted its investigations and enforcement actions. Many warning signs were evident for many years but not immediately addressed such as complaints concerning Madoff’s hedge fund operations (Ferrara & Lameau, 2012). Prior to Madoff’s arrest, the SEC conducted nine different investigations and audits regarding his operations and could not uncover the fraud committed by Madoff (Donlan, 2009).

In 2008, shortly after Madoff was charged, the SEC’s Office of Inspector General, the independent division that investigates agency waste, fraud, and abuse, opened an investigation into the enforcement actions taken by the SEC in regards to this scandal. On August 31, 2009, the Inspector General released a 477 page report detailing its investigation into the failure of the SEC to uncover the Ponzi scheme examining any potential wrongdoing or involvement of SEC personnel in the scheme (OIG-509, 2009) .

The OIG report did not find any evidence to support a concern regarding SEC personnel having an inappropriate or financial connection with the Madoff family that would have

influenced the conduct of their work (OIG-509, 2009, p. 20). The investigation did find, however, that the SEC received ample information from complainants over the years that should have warranted an investigation or examination into Madoff's practices. These six different complaints raised red flags concerning Madoff's hedge fund operations. Three examinations and two investigations into these complaints revealed evidence of suspicious information and caught Madoff in "contradictions and inconsistencies" but the examiners working on the case accepted the flaws discovered. The OIG report also stated that such examinations and investigations should have led to questions about whether Madoff was actually engaged in trading (OIG-509, 2009, p. 20).

As a result of these findings, the OIG stated that it would be issuing two audit reports consisting of recommendations to the SEC to improve future operations in both OCIE and Enforcement offices (OIG-509, 2009, p. 457). Because the SEC was unable to uncover the fraud in the years leading up to Madoff's arrest, the agency received criticism for its lack of action taken. As a result, the agency was subject to an internal investigation by the Office of Inspector General who referred to these mistakes as a "missed opportunity to uncover Madoff's Ponzi scheme 16 years before Madoff confessed," as the Commission had "sufficient information to inquire further and investigate Madoff for a Ponzi scheme back in 1992" (OIG-509, 2009, p. 26). By overlooking this important information, the SEC allowed the Ponzi scheme go on longer than it should have and also posed financial burden to those who invested in Madoff's company.

This thesis seeks to examine the SEC's response to the release of information regarding the mistakes the organization made with respect to the Bernie Madoff scandal and how those responses match the suggested response strategies proposed in SCCT. How those strategies could serve as "best practices" for government agencies involved in crisis was also examined.

Before the SEC's response to the Bernie Madoff Ponzi scheme is discussed, justification will be provided for using SCCT in order to enhance understanding regarding the relationships between crisis type and crisis response. Then there will be discussion into the appropriate responses the SEC should have used when responding to the event based on the type of crisis the Madoff scandal would be categorized as according to the theory. To analyze the crisis response, a textual analysis was performed through a close read of 80 SEC public statements and news releases to identify emerging themes and sub-themes that may provide insight into the application of SCCT in a government crisis. This method also revealed new insights into SCCT's application during a government crisis and may reveal implications for PR practitioners who work in the government sector.

## Chapter 2: Literature Review

### The Foundations of SCCT

Crisis communication success is largely determined by public perception. The initial ideas that helped develop situational crisis communication theory (SCCT), a theory that focuses on crisis communication management, were rooted in attribution theory, which focuses on public perception, and neoinstitutionalism, which focuses on organizational legitimacy (Coombs & Holladay, 1996). Organizational legitimacy is established if stakeholders believe an organization is good and should continue its business operations (Coombs & Holladay, 1996; Allen & Caillouet, 1994; Bedeian, 1989). Neoinstitutionalism plays a role in crisis communication because a crisis can threaten or challenge an organization's legitimacy because it causes stakeholders to question if an organization is acting in accord with what is expected of them (Coombs & Holladay, 1996, p. 281). From this neoinstitutional perspective, crisis managers should be focused on strategies that address and re-establish an organization's legitimacy (Coombs & Holladay, 1996).

Attribution theory focuses on public perception of wrongdoing, guilt, blame, and/or responsibility (Coombs & Holladay, 1996, p. 280). According to attribution theory, a person attributes responsibility for an event and will experience an emotional reaction to the event (Coombs, 2007). Under this theory, a crisis is an event where publics or stakeholders examine causes and make attributions and then evaluate organizational responsibility for the event (Coombs & Holladay, 1996, p. 282). SCCT builds upon attribution theory, because it takes into account how the public perceives and attributes or assigns responsibility to an organization during an event or crisis. Bernard Wiener (1986), one of the key founders of attribution theory, focused on the assumption that people assign responsibility for events and that they also seek

causes for such events. As a result of how they attribute cause and responsibility to the organization, stakeholders or the public could leave their relationship with the organization and could cause damage to the organization by negative word of mouth (Coombs, 2007, p. 136).

Research has identified the successful implementation of attributed responsibility into the foundations of SCCT through testing of both nonprofit organizations and for-profit organizations (Sisco, 2012a, p. 12).

Attribution theory identifies three fundamental dimensions that can affect how crisis responsibility is assigned by stakeholders or the public for a given event or situation. People make decisions and judgments regarding responsibility of the organization based on locus of control, stability, and controllability (Weiner, 1979; Wilson, Cruz, Marshall, Rao, 1993; Coombs, 1995). These three dimensions can have a psychological function and secondary effects (Weiner, 1979, p. 8). Locus of control describes whether the event occurred internally within the organization or was externally caused by a factor or party outside of the organization. This dimension has implications for self-esteem (Weiner, 1979, p. 8).

There are two types of locus of control. Internal locus of control occurs when events are controlled by personal forces of the actor, while external locus of control occurs when events are a result of an outside factor such as a situational force of the environment (Claeys, Cauberghe, & Vyncke, 2010; Lefcourt, 1966). An internal locus of control would be considered an event such as an individual partaking in deceptive practices that leads to an organization going bankrupt. An external locus would occur when a natural disaster, such as a hurricane destroys a building. The second attribute, controllability, refers to whether the organization being evaluated caused the situation to occur or if it was beyond the organization's control, which has implications related to helping, evaluation, and liking (Weiner, 1979, p.8). The final attribute, stability, refers to

whether or not cause of the situation will always be present in the organization or if it changes over time (Coombs, 1995, p. 478). Implications for stability include the magnitude of expectant change following either success or failure (Weiner, 1979, p. 8). SCCT argues that crisis situations will depending on the states of these three attributes (Coombs, 1995, p. 479).

By combining the tenets of neoinstitutionalism and attribution, a symbolic approach to crisis communication was created (Coombs & Holladay, 1996, p. 283). The relationship between neoinstitutionalism and attribution theory suggests three ways crisis strategies can affect an organization's image or reputation: convince stakeholders there is no crisis, have stakeholders see the crisis as less negative, or have stakeholders see the organization more positively (Coombs & Holladay, 1996, p. 283). Because situations vary, so should the responses of an organization to match the attributions of publics with regard to how those publics perceive organizational responsibility for that particular crisis. In a case where there is more attributed responsibility, there is likely to be a more negative view of the organization (Coombs, 1995). Before a strategy can be chosen or implemented, the crisis situation needs to first be evaluated.

**The crisis situation.** In initial SCCT research, Coombs (1995) stated “the crisis situation should be a major influence in strategy selection” (p. 448). There are four factors that an organization should consider that affect the attributions a public makes about a crisis: crisis type, veracity of evidence, damage, and performance history (Coombs, 1995). Once each of these four factors has been examined, an organization should be able to identify “the crisis-response strategy(gies) that should be the most appropriate for the specific crisis situation” (Coombs, 1995, p. 461).

The crisis-type matrix was developed as a criteria to classify crisis (See Figure 1). The dimensions of the matrix are rooted in attribution theory, since attribution is used as a guide in

crisis management. Coombs determined two criteria that guided the creation of the matrix. The dimensions had to “be orthogonal,” or independent of each other, so that no matter how the dimensions are crossed or related, “mutually exclusive crisis types are formed,” meaning each combination of the dimensions can form a distinct relationship (Coombs, 1995, p. 484). The two dimensions that met this criteria, as seen below, were: internal-external and intentional-unintentional (Coombs, 1995, p. 484). These four dimensions created four distinct crisis types: faux pas, terrorism, accidents, and transgressions.

**Figure 1. Crisis Type Matrix**

	<b>Unintentional</b>	<b>Intentional</b>
<b>Internal</b>	Faux Pas	Terrorism
<b>External</b>	Accidents	Transgressions

(Coombs, 1995, p. 455).

**Faux Pas:** Faux Pas occurs when an organization takes an unintentional action and the public or a group not internal to the organization deems the action as inappropriate (Coombs, 1995). This type of crisis can be categorized as ambiguous because the organization has an opportunity to use a denial strategy to convince stakeholders that there is no crisis (Coombs & Holladay, 1996, p. 285). Examples of a faux pas crisis could be a protest or a boycott from publics as a result of an organization’s actions the organization considers to be appropriate, but an external agent defines it as inappropriate (Coombs, 1995, p. 455).

Accidents: Accidents are unintentional as a result of normal operations within an organization, or caused by an external factor, unlike another category, transgressions, which are more preventable and are intentional actions and organization took that led to a crisis (Coombs, 1995). Examples of accidents include: product defects, employee injuries, and natural disasters (Coombs, 1995, p. 456).

Transgressions: Because transgressions are intentional and preventable, the organization should be addressing the organizational image and should take remedial actions to restore the organization's reputation (Coombs & Holladay, 1996, p. 285). Examples of transgressions include: knowingly selling defective products, not releasing safety information, or violating laws (Coombs, 1995, p. 457).

Terrorism: Terrorism focuses on intentional actions taken by external agents and those outside actions are created to intentionally harm an organization (Coombs, 1995). Because acts of terrorism are intentional by an outside actor but not internally conducted by the organization, research suggests that a crisis manager can emphasize an unintentional dimension in its response, which in turn should reduce the organizational responsibility for the crisis (Coombs & Holladay, 1996, p. 284). Examples of terrorism include: product tampering, hostage taking, or workplace violence (Coombs, 1995, p. 457).

These four crisis types alone cannot capture all crisis situations. Because the matrix does not account for all important crisis dimensions, Coombs (1995) also addresses veracity of evidence, damage, and performance history. Coombs (1995) included the concept of veracity of evidence, which is the proof regarding whether or not a crisis did happen to occur and whether it was "true, false, or ambiguous" (p. 458). The next category examined by Coombs (1995) was damage, because "crisis situations may vary in terms of the amount of damage associated with

the trigger event” (p. 459). The crisis strategy should fit the damage done as a result of the crisis. Performance history was the last area examined in terms of crisis history. Organizations with a positive performance may have publics who seem “more willing to forgive” than an organization with past negative performance (Coombs, 1995, p. 460). After identifying the crisis situation, it was necessary to develop response strategies.

By using attribution theory and neoinstitutionalism as a guide, the focus of crisis response in initial SCCT research revolved around five overarching types of strategies to respond to the crisis situation. These five are: nonexistence strategies, distance strategies, ingratiation strategies, mortification strategies, and suffering strategies (Coombs, 1995). Eventually, these five types formed a theory that matches crisis type with crisis response to best aid organizations in forming appropriate responses and achieving the best possible outcome to restore the public’s and stakeholders’ positive views of the organization. There were five overarching response strategies that were developed containing multiple responses organizations could use in the occasion a crisis occurred. The five developed were: nonexistent, distance, ingratiation, mortification, and suffering (Coombs, 1995, p. 450).

Nonexistent strategies: Nonexistent strategies are used when organizations try to eliminate crisis. If no crisis exists, there is no threat to an organization’s image. A nonexistent strategy for example, would occur when an organization chooses not to comment on a given event. In such cases, organizations have four dimensional options: denial, clarification, attack, and intimidation. (Coombs, 1995, p. 450). Denial simply is stating that the crisis that is being judged by the public never happened. Clarification elaborates on the denial strategy by explaining why the event did not happen. The attack strategy targets the party that is reporting that such a crisis exists, and

intimidation involves an organization threatening the party reporting (Coombs, 1995, pp. 450-451).

Distance strategies: Distance strategies attempt to recognize the crisis and try to create public acceptance while “weakening the linkage between the crisis and the organization” (Coombs, 1995, p. 451). An organization, for example, may blame a machine for a product error in order to minimize the damage on those who worked at the organization. Excuse and justification are the two dimensions that fall within this category. Excuse seeks to minimize the organization’s responsibility by using either denial of attention or denial of volition. Justification attempts to minimize the damage associated with the crisis by convincing the public or stakeholders that the damage created by the current crisis is not as bad compared to other past crises (Coombs, 1995, p. 451).

Ingratiation strategies: The ingratiation strategies were developed in an attempt to gain approval from the public for the organization. An organization, for example, that brags about its accomplishments would be using an ingratiation strategy. Dimensions in this category include: bolstering, transcendence, and praising others (1995). Bolstering tries to avoid the crisis by presenting to the public positive aspects of the organization thereby leading them away from the crisis, transcendence reminds the public about the shared values that exist between the organization and the public, and praising others includes praising the target public in order to seek approval (Coombs, 1995, p. 452).

Mortification strategies: The next set of crisis response strategies that were described are mortification strategies, which are strategies that can be used as an attempt to receive “forgiveness of the publics and to create acceptance of the crisis” (Coombs, 1995, p. 452). This type of strategy could occur when an organization issues a public apology or recognizes fault in

its actions. There are three dimensions to the mortification strategy: remediation, repentance, and rectification (Coombs, 1995). Remediation tries to overcome the crisis by offering victims compensation, repentance seeks the public's forgiveness by stating how the organization regrets its failures, and rectification attempts to establish a plan to prevent a similar crisis from occurring in the future (Coombs, 1995, p. 452-453).

Suffering strategies: The last overarching strategy described in initial research was the suffering strategy, where organizations try to gain sympathy from publics. A suffering strategy could occur when an organization states it too suffered as a result of an event. An airplane engineering firm might use this when there is a plane crash, noting the lives of passengers lost, but also emphasizing its sadness about the employees it lost. Using a suffering strategy works to win sympathy from the public (Coombs, 1995, p. 453).

Whatever strategy an organization decides to choose when responding to a crisis, the response should always aim to restore the organization's image, or how it is viewed by the public (Coombs, 1995, p. 453). SCCT argues that the most effective way to protect an organizational image is by "modifying public perceptions of the responsibility for the crisis or impressions of the organization itself" however, strategy selection is based primarily on the crisis situation (Coombs, 1995, p. 453). You cannot identify the correct crisis response without knowing the entire situation because the attribution of responsibility comes from the original crisis situation (Coombs & Holladay, 1996, p. 282).

Preliminary testing leading to the development of this theory yielded the following results: transgressions are perceived as more intentional than accidents, because an organization has control over transgressions (Coombs, 1995). Along similar lines, organizations that might be perceived as being able to prevent a crisis "should have a more negative image than an

organization perceived to have little or no control over a crisis” (Coombs & Holladay, 1996, p. 293). This research done initially suggested that the symbolic approach to match a crisis type with a correct response had positive results, but it took more research to finalize the categories of crisis type and crisis response.

Coombs (1999) developed a list of nine types of crisis that were later expanded to 13 types of crises (Coombs & Holladay, 2002, p. 170). The thirteen types that were tested were: rumor, natural disaster, malevolence, workplace violence, challenge, technical breakdown accident, technical breakdown product recall, megadamage, human breakdown accident, human breakdown product recall, organizational misdeeds with no injuries, organizational misdeed management misconduct, and organizational misdeeds with injuries (Coombs & Holladay, 2002, pp. 170-171). These crisis types were then tested against a list of eight crisis response strategies developed through earlier research on matching crisis type and crisis response (Coombs, 1999; Coombs & Holladay, 2002). The eight responses were:

An attack on the accuser: The organization confronts the group that claims a crisis is occurring

Denial: a crisis manager or organization denies a crisis even happened

Excuse: crisis manager or organization diminishes the organization’s responsibility

Victimization: crisis manager or organization frames themselves as a victim of the crisis

Justification: crisis manager or organization tries to minimize the damage that was inflicted by the crisis

Ingratiation: crisis manager or organization reminds the stakeholders of all of the good the organization has done and offers stakeholders praise

Corrective action: Crisis manager or organization attempts to prevent a future crisis from occurring and repairs damage done

Full apology: Crisis manager or organization fully accepts responsibility of the crisis and asks stakeholders for forgiveness.

Using these eight responses, crisis managers can match the response to the level of crisis responsibility (Coombs & Holladay, 2002, p. 171). This matching relationship is critical to SCCT (Coombs & Holladay, 2002, p. 173). Testing the 13 types suggested (Coombs & Holladay, 2002) with the eight response strategies (Coombs, 1999; Coombs & Holladay, 2002), led to the formation of three distinct crisis clusters:

Victim cluster: The organization is a victim of the crisis. This includes: natural disasters rumors, workplace violence, and product tampering.

Accidental cluster: The crisis represents unintentional actions by the organization. This includes: challenges, megadamage, technical breakdown-accidents, and technical breakdown-recalls.

Preventable cluster: The crisis either purposely placed stakeholders at risk, or knowingly taking inappropriate actions, or human error that might have or could have been avoided. These include: human breakdown accidents, human breakdown recalls, organization misdeeds-management misconduct, organization misdeed with no injuries, and organizational misdeeds with injuries (Coombs & Holladay, 2002, p. 179).

Crisis response strategies were also compressed into three separate clusters: deny, diminish, and rebuild based on earlier research (Coombs & Holladay, 1996; Coombs, 2006). Bolstering was later added to the theory as a secondary crisis response (Coombs, 2007).

Deny: Claim no organizational responsibility for a crisis. Strategies would include: attacking the accuser, denial, and scapegoating.

Diminish: Reinforce the low levels of crisis responsibility. Strategies would include: using an excuse or justifying the crisis.

Deal or rebuild: The organization accepts responsibility and focuses on rebuilding its reputation. Strategies would include: concern, compensation, regret, and/or apology (Coombs, 2006, p. 248).

Bolstering: Bolstering strategies should be used as supplements to the three primary response clusters. The organization focuses on portraying the organization's goodwill by praising stakeholders or attempting to receive sympathy from them. Strategies would include: reminders, ingratiation, and victimage (Coombs, 2007, p. 170).

Each distinct crisis type cluster has a suggested crisis response. The formation of the three crisis clusters and three response clusters, and the secondary response cluster of bolstering, formed one of the basics tenets of SCCT as it is researched today.

### **SCCT Theoretical Elements**

SCCT was established to aid organizations in times of crisis to repair the organization's reputation, which defined as "an aggregate evaluation stakeholders make about how well an organization is meeting stakeholders expectations based on its past behaviors" (Wartick as cited in Coombs, 2007, p. 164). This theory was also created to minimize reputational harm (Coombs, 2007). Dulaney and Gunn (2017) asserted that one of the biggest components of the theory is the expression of sympathy and connection organizations make with the publics affected to acknowledge what happened and to assure them it will not happen again (p. 28). This theory also aims to provide organizations with ethical base responses to a given crisis. The ethical base responses involve both instructing and adjusting information, which are the "matched strategy for most crises that involve some threat to stakeholders" (Coombs, 2016, p. 122). Instructing information includes coping physically with the crisis by telling stakeholders or affected parties how to protect themselves, while adjusting information includes how to cope psychologically with the crisis by expressing concern or suggesting corrective actions to prevent a repeat of the

type of crisis (Coombs, 2010). Three factors that shape reputational threat are: the initial crisis responsibility, crisis history, and prior relational reputation (Coombs, 2006). Before determining a crisis response, an organization must first look at crisis type, prior relationship, and crisis history, which comes from attributed organizational responsibility in the eyes of stakeholders.

**Initial crisis responsibility.** Before a response is implemented, the type of crisis must be known because the public's perception of a crisis focuses on "who is responsible for the crisis in the first place" (Sisco, 2012a, p. 12). The first step in determining how the crisis will affect initial crisis responsibility is not determined by the organization, but rather is the function of stakeholder attributions of control of the crisis from the organization (Coombs, 1995). By identifying how the public might determine the amount of responsibility that should be taken by an organization, a crisis manager or practitioner can identify the crisis type, followed by the response strategies that will have a higher chance to reduce any reputational damage that may be attributed to the organization (Sisco, 2012a). According to the three causal dimensions of attribution as noted in early research of this theory, organizational crisis responsibility should be perceived as strongest when the cause is stable, external control is low, and the internal locus is strong, whereas responsibility should be weakest when attributions suggest the cause is not stable, with strong external control and weak internal locus (Coombs & Holladay, 1996, p. 282).

Because an organization is attributed responsibility for a crisis, a crisis manager needs to establish or "shape the crisis frame by emphasizing certain cues" (Coombs, 2007, p. 167). SCCT identifies three different clusters of crisis responsibility: the victim cluster, the accidental cluster, and the intentional cluster. An organization falling in the first cluster identified, the victim cluster, according to Coombs, has weak crisis responsibility (2006). The second cluster, which is accidental cluster has small attributions of responsibility because the crisis is seemed to be

unintentional or uncontrollable. Organizations whose crisis falls within the final cluster, the intentional cluster, have strong attributions of crisis response since the event was brought on by an intentional or purposeful reason (Coombs, 2007).

**Crisis history and relational reputation.** Identifying prior crisis history and prior relational reputation is the second step to determine how to determine reputational threat and respond to a crisis (Coombs, 2007). Crisis history explains the organization's prior experience or run in with crisis. Coombs states that "crisis history and an unfavorable prior relationship reputation serve to increase the initial assessment of the reputation threat" (Coombs, 2007, p.168). Crisis history can affect and intensify attributions associated with the crisis responsibility and lowered public perceptions of organizational reputation" (Coombs, 2004, p.282). Relational reputation can best described as whether or not a strong or weak relationship existed between the organization and the external stakeholders before the crisis. A big part in determining the relational reputation can be based off of an organization's credibility, which Coombs says is a combination of expense and trustworthiness, since credibility is determined by the stakeholders not in the organization (Jamal & Bakar, 2017). Whether or not there was a strong or weak relationship could determine the extent of reputation damage and whether or not the organization's image and reputation can be restored and to what capacity with those stakeholders.

**SCCT clusters and response application.** Crisis response strategies are not required, but optional, and crisis managers can choose which to use in a crisis (Coombs, 2006, p. 246). Managers will "always have the option of trying to fight stakeholder attributions, using crisis response strategies, in an effort to alter attributions of crisis responsibility" (Coombs, 2004, p.

285). There are three clusters of responses identified: deny, diminish, and rebuild or deal, and bolstering (Coombs, 2006, 2007, 2012).

Deny: When organizations implement a deny strategy, they “attempt to remove any connection between the organization and the crisis” (Coombs, 2007, p. 171). Deny, however, has been proven to not always be an effective response strategy (Avery et al., 2009). This response seeks to identify that there is a crisis, but the organization is not at fault and has minimal crisis responsibility attributed to it from the public (Coombs, 2006). There are three responses that fall into the deny cluster including: attacking the accuser in which the crisis manager confronts the person or group that is assigning blame; denial, in which the crisis manager denies any crisis, and finally, scapegoating, in which the crisis manager blames another group outside of the organization (Coombs, 2006, p. 248).

Diminish: The diminish response attempts to downplay the implications of the crisis saying that the said crisis is not as bad as people think or that the organization did not have control over the crisis (Coombs, 2007). The third response strategy that SCCT (2007) discusses is the rebuild strategy. There are two strategies that fall into the diminish cluster including: excuse, where the crisis manager attempts to minimize organizational responsibility by denying intent to do harm or claims that uncontrollable events led to the crisis; and justification, in which the crisis manager minimizes the perceived damage caused by the crisis (Coombs, 2006, p. 248).

Rebuild: The rebuild strategy tries to “improve the organization’s reputation by offering material and/or symbolic forms of aid to victims” (p. 172). Organizations who utilize the rebuild strategies attempt to better the organization’s reputation by offering services of aid to victims who suffered as a result of the crisis (Coombs, 2007). SCCT proposes four responses that align with this cluster: concern, where a crisis manager expresses concern for the victims;

compensation, where a crisis manager offers money or gifts to the victims; regret, where a crisis manager expresses how badly the organization feels about the crisis; and apology, where a crisis manager and organization take full responsibility and ask the public for forgiveness (Coombs, 2006, p. 248).

**Bolstering:** The secondary strategy of bolstering supplements the original three response strategies suggested in this theory by praising stakeholders, or painting the organization as victims of their own crisis in order to gain sympathy (Coombs, 2007). This secondary cluster has includes the following response strategies: ingratiation, where a crisis manager praises stakeholders and reminds them of the good works of the organization; reminder, where a crisis manager reminds the stakeholders about past good works of the organization; and finally victimage, where the crisis manager reminds the stakeholders the organization is also suffering as a result of the crisis (Coombs, 2007, p. 170).

SCCT discusses the importance of maintaining consistency in the response strategies because mixing strategies can affect the overall response (2007). SCCT pairs specific matches between crisis type and crisis response and these matches have been tested and confirmed in research (Ma & Zhan, 2016); however, Claeys and Cauberghe (2014) have found evidence of situations where mismatching did not make a difference in the crisis or where using a certain response did not have more of an effect compared to the use of another response.

**Matching response with crisis type.** Many studies have been conducted to measure the effectiveness of using this theory to rebuild reputations through the pairings of crisis type with crisis response discussed in SCCT. Studies that have tested the clusters of SCCT have come up with different results in answering the question: is there one guaranteed way to match one crisis with one response yielding to a positive outcome for the organization facing harm? Coombs

(2006) has even stated: “if we are to have greater confidence in SCCT matching, further research is required” (p. 257). Claeyns and Cauberghe (2014) identified in their study that it did not necessarily matter whether an organization used a match or mismatch between crisis type and crisis response but on the way the message is framed. When using emotional framing, there was no difference between mismatched or matched pairings, but when using rational framing, organizations should match the crisis response strategy to the crisis type suggested in the theory (Claeyns & Cauberghe, 2014, p. 187). On the contrary, Ma and Zhan (2016) found organization reputation is better protected by matching response strategies compared to mismatching the strategies or not responding.

Holladay and Coombs (1996) initially suggested that matching crisis type to crisis response can lead to a better post-crisis situation compared to a mismatched response strategy. Other studies evaluating SCCT have expanded measuring these clusters in terms of other factors such as locus of control and crisis involvement (Claeyns & Cauberghe, 2010, 2014), which reveal mixed results in the matching and mismatching of the clusters originally proposed in SCCT. When stakeholders have a low crisis involvement, they may develop a more favorable attitude towards the organization if the organization does not match the response with crisis type, while those with high involvement may recognize the mismatch and find the organization’s reputation more negatively (Claeyns & Cauberghe, 2014, p. 187).

***Victim cluster and the deny response.*** The first cluster was created through the crisis typology and is broken down into three distinct clusters: victim, accidental, and intentional (Coombs, 2007). In SCCT each crisis type matches one crisis response from the response cluster of deny, diminish, and rebuild. In the case of an organization within the victim cluster, because the organization did not cause the crisis, studies have shown that people attribute the least crisis

responsibility to organizations in a victim situation. Organizations whose crisis falls into the victim cluster are attributed minimal crisis responsibility because they are viewed as the victim of the event (Coombs, 2007). Situational crisis communication theory pairs the victim cluster with the deny response, since the organization in this situation has minimal attributed crisis responsibility (Coombs, 2006, 2007). Sisco (2012a) supported this match. Matching the victim cluster with the deny cluster is an effective method since the organization has minimal responsibility so it only makes sense that “an organization should reinforce their lack of responsibility for the situation,” or using a deny strategy, instead of trying to use the diminish strategy to lessen the impact of the crisis (Sisco, 2012a, p. 13). When an organization is the victim, there should be no downplaying or rebuilding, since it would be considered the least at fault.

*Accidental cluster and the diminish response.* Studies have mixed results in regard to crisis response within the accidental cluster. The diminish strategy in this type of situation has been suggested since accidents have low attributions of crisis responsibility (Coombs, 2006, 2007), but there has been evidence that has found no difference between diminish and rebuild during this type of crisis (Sisco, 2012a). In some situations, for instance in non-profit organizations, the diminish strategy is not effective because it could be seen as too safe (Sisco, Collins, & Zoch, 2010). Other factors have also been identified as things to be considered in a case of an accident because an organization may not be able to be forgiven for an accident. For instance, an apology could be needed in addition to a response during this type of situation, and in some cases, an accident may not be forgivable by external stakeholders (Sheldon & Sallot, 2009). With the inconsistency between using the diminish strategy in this type of situation, more

research needs to be conducted with regards to testing responses in crises that are considered accidental.

***Intentional cluster and the rebuild response.*** Studies have supported SCCT's findings that preventable crises can result in the greatest reputational loss, considering it is a crisis that could have been avoided and was a direct cause of an intentional action by an organization (Claeys, et al., 2010). Maioreescu (2016) found in a 2016 study regarding Toyota's unintended accelerator crisis, that the corporation was held responsible for to a greater extent which resulted in negative coverage about the corporation. Preventable crises are likely to tarnish an organization's reputation, and therefore should focus on addressing both the physical and psychological needs of their publics or stakeholders (Maioreescu, 2016, p. 3). Rebuilding to restore a reputation has been found to be successful in situations when there is a crisis that resulted by an intentional action of the organization (Coombs, 2006, 2007) because this type of crisis most often leads to the highest level of threat to an organization (Clayes et al., 2010). Using the diminish strategy has been unsuccessful in situations with respect to the intentional cluster, where evidence had found rebuild was significantly more successful among participants compared to using a diminish strategy in the case of an intentional crisis (Sisco, 2012a). The rebuild strategy however may not always be effective. There is a possibility that using the rebuild strategy may not be as effective in some circumstances compared to others such as organizational misdeed and human-error (Ma & Zhan, 2016, p. 114). Kim, Choi, and Attkisson (2017) found that apologizing is not the best crisis response because it can backfire due to immense costs and by giving providing the public with the assumption that the crisis is completely attributed to the company (p. 1096).

## **SCCT Application**

SCCT has been tested in a variety of subject areas, showing the value the theory can have to different types of organizations. Ma (2018) expanded the theory by examining the role of the sense of customer betrayal when the crisis occurs and its connection to the outcome concepts in SCCT (p. 381), while other studies have been used to evaluate response within different types of organizations. Nonprofit organizations in crisis have been used as research subjects to evaluate using this theory, such as the Red Cross, in which the results from this study found that overuse of one response type may not be effective in restoring the public's perception of the organization (Sisco, Collins, & Zoch, 2010). Another non-profit that was used to measure the suggestions in this theory was the Association of Community Organizations for Reform Now (ACORN), and it had been found that errors had been made in determining the correct crisis type, and crisis response by the organization which affected its overall crisis outcome (Sisco, 2012b). In addition to using SCCT to evaluate non-profits, many researchers have used corporate organizations for research opportunities. Some have measured the response of crisis within corporate organizations such as the Samsung Industry in South Korea (Jeong, 2009) and even in politics, which discussed the importance of apology (Sheldon & Sallot, 2009).

One research area where SCCT has not full expanded is in government crisis research. Since crisis communication is a relatively new field, there are still many gaps in literature, one is in government crisis. There have been a few government crises examined in the field of crisis but not all have used SCCT to guide research, but did use government documents as the unit of analysis (Vidoloff & Petrun, 2010; Shapiro & Ward, 1998). Veil and Anthony (2017) did however, use SCCT to investigate FEMA's response to Hurricane Katrina using SCCT as a theoretical frame with both an inductive and deductive approach in data analysis identifying

themes that were evident throughout FEMA's response (Veil & Anthony, 2017). Although there has been expansion in crisis communication research, there is still room for more knowledge and inquiry. Avery, Lariscy, Kim, and Hocke (2010) studied the role of crisis communication in PR from 1991-2009 and had found that in the past 18 years examined, crisis communication has experienced major growth and a variety of application, but there is still room for new studies and directions to be taken in this type of research area (p. 192). Many studies examining and testing this theory have also been quantitative studies using techniques such as meta-analysis (Ma & Zhan, 2016), pilot studies (Ma, 2018), or experimental factorial designs (Claeys & Cauberghe, 2014). Using a qualitative analysis can reveal new findings either supporting or negating this theory. In addition to using qualitative analysis as a means of expanding the field of crisis communication research, Schwartz (2007) argues that in order to expand crisis research, future studies should be taking real world crises into account (p. 19).

### Chapter 3: Methodology

Given the gaps in scholarly literature about the role of Situational Crisis Communication Theory in government agencies, specifically in the financial sector, this study sought to answer the following questions:

R1: What were the SEC's crisis communication strategies during and following the Madoff crisis?

R2: Did the SEC's public responses during the Madoff crisis, from December 11, 2008-September 30, 2018, match the proposed responses suggested by SCCT for a preventable crisis?

R3: Did the SEC's crisis response strategies change over time?

Because there are only a few qualitative studies using SCCT in the field, and because this study sought to discover whether or not the SEC used suggestions based on SCCT that align with a preventable crisis, textual analysis was used to analyze and evaluate the SEC's public response to the Bernie Madoff scandal. The Bernie Madoff scandal was chosen because it provides an opportunity to examine SCCT's application during a government crisis due to the great impact the scandal had on the government financial sector, and more specifically, the SEC.

Textual analysis is used by researchers to gather information about how someone may make sense of the world (McKee, 2003, p. 1). This method is used to conceive a given text as a meaningful whole, involving interpretation, which is based on specific assumptions to be made explicit through analysis (Larsen, 1991, p. 122). The outcome of textual analysis can be seen as containing more than a single meaning or one ideology (Larsen, 1991, p. 132). To conceive the text as more than a single meaning, a qualitative analysis is recommended. There are a series of steps involved in a textual analysis of a given case study; this study in particular, replicated the

steps discussed in Veil and Anthony's (2017) study. These steps include: choosing the case that will be studied, gathering data from a specific sample generated by a search, analyzing transcripts of documents, and noting key themes that reveal themselves in the data.

Textual analysis identifies emerging themes through a close read of the nuances of the selected text, and is also used to examine sub-text themes that can be hidden in the text. These themes and sub-themes can reveal important elements in a given piece of literature (Fereday & Muir-Cochrane, 2006, p. 4). It is important to understand that textual analysis does not focus on the researcher's objectives, but rather the findings in the analysis are verified through identification of the latent meanings that present themselves in the close read of the given text. Textual analyses differ from other research methods because they identify:

in detail to the text on which an interpretation of latent meaning is based; they indicate more briefly to the fuller supporting or contextual evidence which lies to hand; they take into account material which modifies or disproves the hypotheses which are emerging (Hall, 1975, p. 15).

Case studies are an important approach to research because they can examine a concept within a real-life context when a clear boundary between the two is not always clearly present (Yin, 2002; Veil & Anthony, 2017). In order to begin the conversation regarding SCCT and best practices for government agencies in the financial sector, it is best to choose one specific crisis event to analyze. Textual analysis is an effective method to use when examining a specific case in crisis communication such as the SEC's handling of the Bernie Madoff scandal. Because textual analysis has been used previously to identify crisis response, this method was implored in this study. The first step in examining a specific case through a textual analysis is choosing the specific event and text to evaluate. Part of this step included background research about the

scandal and when it was announced that Madoff was under arrest to determine what dates to include in the sample.

Instead of using interview transcripts and public news documents along with government documents, as the unit of analysis to identify themes as Veil and Anthony (2017) did in their study, this study instead used publicly released government documents from the SEC. These documents were identified by first conducting a key word search on the SEC's external website. A key word search of "Bernard Madoff" on the SEC's public website under "News and Public Statements" originally yielded 346 results of links to various public documents. After conducting an initial review of the list of links to documents under that section of the website, the sample of 346 documents was filtered down to 80 documents mentioning Bernard Madoff released by the SEC from December 11, 2008 until September of 2018, when the search was completed. The reason the date range was broad in nature is due to the fact that some processes and responses to the scandal may have taken years to implement after the crisis due to the nature and extent of government work and this study seeks to capture the full response from the SEC, regardless of the timing it took to respond to the crisis or to implement practices to better handle similar situations in the future. September 30, 2018 also marked the end of the 2018 government fiscal year. The other 266 documents that appeared in the initial search of 346 documents that were filtered out of the sample on the SEC's website under "News and Public Statements," consisted of documents out of the date range (e.g. early 2000s before the scandal) and exhibits from the Office of Inspector General's (OIG) report into the investigation of the SEC and its practices during the time of the Madoff scandal.

The documents out of the date range were not examined in this study because they were published prior to the scandal and announcement of Madoff's arrest and mentioned news

pertaining to Madoff’s firm prior to the scandal. The exhibits from the OIG report were also not analyzed because the Inspector General’s role at the SEC is to provide independent oversight to its respective agency and their office focused on why the investigation into Madoff took so long for the SEC to uncover, and did not focus on the SEC’s rhetorical response to the Ponzi scheme.

In the 80 artifacts for this analysis, there were many document types represented: press releases, news digests, speeches, Congressional testimonies and statements, public statements, court orders, and Spotlight pages. It was also worth examining whether or not the SEC implemented and addressed publicly the recommendations from the OIG and if those recommendations taken or not taken would fit in the category of a rebuild strategy or if they would fit into another response category, which could provide new insights into SCCT.

**Table 1**  
*Document Type and Quantity*

<b>Type of Document</b>	<b>Quantity</b>
News Digest	29
Press Release	18
Congressional Testimony	13
Speech	11
Public Statement	4
Spotlight Page	2
Court Order	2
Statement before Congress	1

It is important to note that the press releases and the news digests, while separate documents, often shared similar news events such as arrests related to the Madoff scheme. While similar information was represented, each document was analyzed separately because each would have been distributed in a different way to the public. Press releases differed from news digest articles because the press releases discussed one specific event, while the news digest documents highlighted multiple events or stories. Spotlight pages highlighted specific announcements from the Commission. Congressional testimonies were speeches by SEC staff before congressional committees. These differed from public statements which were from key SEC staff regarding specific news, such as the call for the OIG investigation. The documents classified as speeches were written by SEC staff for different events they were welcomed to speak at such as conferences or visits at universities. These public statements were distributed to and targeted the public, not just Congressional committees. There were many key SEC staff members who delivered testimonies, speeches, or released public statements.

**Table 2**

***List of SEC Speakers Referring to the Madoff Matter***

<b>Speaker Name and Title</b>	<b>Type of Communication</b>	<b>Date Presented</b>
Mary L. Shapiro, Chairman of SEC	Public Statement	September 4, 2009
Linda Chatman Thomsen, Director, the Division of Enforcement	Congressional Testimony	January 27, 2009
Mary L. Shapiro, Chairman of SEC	Public Statement	September 2, 2009
Robert Khuzami, Director, Division of Enforcement	Congressional Testimony	September 10, 2009
H. David Kotz, Inspector	Congressional	January 5, 2009

General	Testimony	
Andrew Donohue, Director, Division of Investment Management Lori Richards, Director, Office of Compliance Inspections and Examinations Erik Sirri, Director, Division of Trading and Markets Linda Chatman Thomsen, Director, Division of Enforcement Andrew Vollmer, Acting General Counsel, Office of the General Counsel	Congressional Testimony	February 4, 2009
H. David Kotz, Inspector General	Congressional Testimony	September 10, 2009
Mary L. Shapiro, Chairman of SEC	Congressional Testimony	September 22, 2011
Michael Conley, Deputy Solicitor	Congressional Statement	December 9, 2009
Elisse B. Walter, Commissioner	Congressional Testimony	March 20, 2009
Mary L. Schapiro, Chairman of SEC	Congressional Testimony	July 14, 2009
H. David Kotz	Congressional Testimony	February 10, 2011
Daniel M. Gallagher, Jr., Co- Acting Director, Division of Trading and Markets	Speech	October 28, 2009
Mary L. Schapiro, Chairman of SEC	Speech	November 9, 2010
Robert Khuzami, Director, Division of Enforcement	Speech	August 5, 2009
Mary Schapiro, Chairman of SEC	Speech	November 5, 2009
Mary Schapiro, Chairman of SEC	Speech	February 5, 2010
Mary Schapiro, Chairman of SEC	Speech	October 27, 2009
Mary Schapiro, Chairman of SEC	Congressional Testimony	March 10, 2011
Mary Schapiro, Chairman of SEC	Speech	September 17, 2009
Mary Schapiro	Congressional Testimony	March 11, 2009

Elisse B. Walter, Commissioner	Speech	December 9, 2009
Robert Kzuzami	Testimony	May 7, 2009
Luis A. Aguilar, Commissioner	Public Statement	July 31, 2013
Mary Schapiro, Chairman of SEC	Congressional Testimony	June 2, 2009
Robert Khuzami, Director, Division of Enforcement	Speech	March 19, 2010
Luis A. Aguilar, Commissioner	Public Statement	December 21, 2015
Luis A. Aguilar, Commissioner	Speech	October 25, 2013
Luis A. Aguilar, Commissioner	Speech	February 21, 2014

These documents were examined chronologically to evaluate how the SEC's responses during and after the crisis may have changed and how their response may have been targeted in a specific way due to external factors such as the stock market, or other investment operations. Examining these public documents determined whether or not the SEC responded in accordance with the recommended response in SCCT and what impact it had on the organization's reputation, or if SCCT response strategies were used at any stage in the SEC's response, and how those responses might have changed.

Once these documents were pulled, the next step was examining through a close read, themes and sub-themes that emerged that describe the SEC's crisis response. This process including reading each document thoroughly and taking notes on language suggesting the SCCT and Kim & Liu (2012) themes, as well as noting similar language to suggest other themes present using both an inductive and deductive approach. The document length ranged from a few sentences to a few pages, depending on the type of document. The speeches, public statements, and congressional testimonies were longer than press releases, spotlight pages, and news digest articles.

In this study, a classification plan for the themes to be searched deductively, was put in place before the study, based on previous crisis responses found in previous crisis literature. The documents mentioning Madoff that were examined were categorized into six themes created through the four definitions of each type of crisis response cluster: *deny*, *diminish*, *rebuild*, and *bolstering* (Coombs, 2006), a category marked *instruction*, created in order to account for the government response findings by Kim and Liu (2012) that suggest government organizations were more likely to emphasize providing instructing information in a crisis (p.80), and an additional category marked *other* to account for any other findings not aligning with the previous five themes. Kim and Liu (2012) discussed an additional two categories of enhancing and transferring. Enhancing was not used in this study because it appeared to be similar to the bolstering response, as it focused on an organization's good works (Kim & Liu, 2012, p. 82). Transferring, which occurs when "organizations used to support a credible third party's crisis responses to transfer that third party's credibility onto themselves," (Kim & Liu, 2012, p. 82) was also not used. Transferring was not used because there was not a clear third party that the SEC could praise for its handling of the Madoff crisis, because it was solely the SEC's responsibility to investigate and charge Madoff under its establishment as an government agency. The themes developed for this analysis were used to determine which response, or in this case, theme was most prominent in the SEC's press releases and public statements regarding the scandal.

Four of the themes established corresponded with the four crisis response clusters suggested in SCCT of *deny*, *diminish*, *rebuild*, and *bolstering* (Coombs, 2006). The sub-themes of those themes were the corresponding response strategies that corresponded within each given cluster. Using the four crisis response strategies of *deny*, *diminish*, *rebuild*, and *bolstering*

suggested in SCCT as themes to categorize the texts, revealed whether or not the right response, in accordance with SCCT, was chosen by the SEC post-scandal and whether or not the agency's response aligned with the propositions outlined in the theory. The themes also revealed new directions the theory may need to take in order to address government crisis communication response if the themes or responses that emerged in the analysis did not align with strategies proposed in the theory and instead aligned with the category of *instruction*, or the category marked *other*.

This study sought to identify the presence of the four primary SCCT response types of *deny*, *diminish*, and *rebuild* and the secondary response of *bolstering*, along with Kim and Liu's (2012) category of *instruction* through a deductive approach. The identification of the category of *other* required an inductive approach in order to identify additional themes and corresponding response strategies that emerged that did not necessarily align with any of the four predetermined SCCT responses of *deny*, *diminish*, *rebuild*, and *bolstering*, or the category of *instruction*. The elements used to identify the themes were the definitions of response strategies for each of the four responses as defined in SCCT and Kim and Liu's (2012) definition of instruction of information. When none of the SCCT strategies or the *instruction* category were present in the SEC's response, the agency's strategies that were present fell into the category of *other*. When the *other* category was discovered to appear in the analysis of the text, sub-themes in that category were created based on common language found in order to bring to light responses that were used by the agency that could expand SCCT in a government setting. Definitions, response strategies, and examples of each response strategy that were used to identify themes and subthemes are defined below:

Table 3

*Definitions of Themes*

Type of Response	Corresponding Response Strategies	SEC hypothetical examples of these strategies
<b>Deny</b>	<p><b>Attacking the accuser:</b> The crisis manager confronts the person or group claiming that there was an issue.</p> <p><b>Denial:</b> The crisis manager denying there is no crisis</p> <p><b>Scapegoat:</b> The crisis manager blaming another group outside of the organization (Coombs, 2006, p. 248).</p>	<p><b>Attacking the accuser:</b> SEC attacking the Whistleblower in the case.</p> <p><b>Denial:</b> SEC officials claiming there was no involvement in the Ponzi scheme</p> <p><b>Scapegoat:</b> SEC officials placing the blame of the Ponzi scheme specifically on Madoff or other investment companies</p>
<b>Diminish</b>	<p><b>Excuse:</b> The crisis manager attempts to minimize organizational responsibility by denying intent to do harm or claims inability to control the events that led to the crisis.</p> <p><b>Justification:</b> Crisis manager minimizes the perceived damage caused by the crisis (Coombs, 2006, p. 248).</p>	<p><b>Excuse:</b> SEC officials deny intent by stating that they could not stop Madoff from breaking the law.</p> <p><b>Justification:</b> SEC officials stating that the Ponzi scheme was not that detrimental to the stock market or to investors</p>
<b>Rebuild</b>	<p><b>Concern:</b> Crisis manager expresses concern for the victims, which is part of adjusting information</p> <p><b>Compensation:</b> Crisis manager offers money or gifts to the victims</p> <p><b>Regret:</b> A crisis manager expressing how badly the organization feels about a crisis</p> <p><b>Apology:</b> Crisis manager and organization take full responsibility for the crisis and asks the public for forgiveness (Coombs, 2006, p. 248).</p>	<p><b>Concern:</b> SEC officials acknowledging the damage done to investors of Madoff's firm</p> <p><b>Compensation:</b> SEC releases a plan to compensate victims for the money that was invested</p> <p><b>Regret:</b> SEC officials expressing their remorse for their missteps during previous investigations that could have caught Madoff earlier.</p> <p><b>Apology:</b> SEC officials taking full responsibility for not conducting thorough investigations after the Whistleblower complaints,</p>

		asking the public and those investors affected, for forgiveness.
<b>Bolstering</b>	<p><b>Ingratiation:</b> Crisis manager praises stakeholders and reminds them of the good works of the organization</p> <p><b>Reminder:</b> A crisis manager reminds stakeholders about the past good works of the organization</p> <p><b>Victimage:</b> Crisis manager reminds stakeholders that the organization is a victim of the crisis too (Coombs, 2007, p. 170).</p>	<p><b>Ingratiation:</b> SEC officials praising whistleblowers for their role catching Madoff and reminds stakeholders of the SEC’s mission and vision.</p> <p><b>Reminder:</b> SEC officials releasing reports that show how many successful investigations or examinations they have conducted.</p> <p><b>Victimage:</b> The SEC reminds the public that Madoff also manipulated the agency.</p>
<b>Instruction of information</b>	<p><b>Providing Direction:</b> any “information that indicates what actions publics should take to protect themselves” (Kim and Liu, 2012, p. 80).</p>	<p><b>Providing Direction:</b> SEC officials providing the public or investors with steps to follow in order to protect themselves from further investment harm.</p>
<b>Other</b>	<p><b>Other:</b> Any other strategy that does not align with any of the other categories</p>	<p><b>Other:</b> Revising policies into how SEC conducts investigations would be one example that would not fall into any of these other categories.</p>

Identifying the presence or absence of each of these strategies determined if the SEC's response to the Madoff scandal aligned with the theme of the *rebuild*, which is the suggested response for a preventable crisis according to SCCT. Because this study is focused on the specific rhetorical responses of the SEC in this particular crisis, the sample did not expand outside of the agency's publicly released documents on its external website. Using both a deductive approach and an inductive approach during the close read textual analysis of the press releases and public statements released by the SEC, revealed the level of accuracy SCCT current strategies have been applied in a government setting. Because the analysis reveals new themes of responses that do not align with the three response types suggested by SCCT, the findings of the analysis revealed gaps in SCCT that may need to be addressed when examining government crisis communication in the future. The close read nuances that were discovered through this study also revealed new implications for those who are practicing PR at various government agencies with respect to crisis communication and using SCCT as a guide for effective crisis management.

## Chapter 4: Analysis

Examining the SEC responses to the Madoff crisis revealed that the response strategies that have been tested and applied previously in SCCT research are applicable in a government crisis context, especially in one where the organization is attributed the most responsibility, as was the case involving the SEC. This study found that SCCT strategies have been used and applied in a realistic government crisis, which shows the value and applicability of the theory in a government crisis setting. This study also found that additional strategies were also used, which suggests that corrective action noted in SCCT could be expanded to include the additional strategies of revitalization and accountability that were prominent in this study in future government crisis communication plans, especially when those agencies are faced with a preventable crisis. The first research question in this study asked the following:

R1: What were the SEC's crisis communication strategies during and following the Madoff crisis?

The SEC used SCCT strategies of diminish, rebuild, and bolstering during and following the crisis, but also used other strategies in reaching its external publics. The SCCT strategy of diminish, which is suggested to be paired with a crisis that is considered accidental, was only used once by an SEC leader. As suggested in SCCT literature, the rebuild and the bolstering strategies that are to be paired with a preventable crisis, were often used both during the height of the crisis and in the years following, which suggests the SEC's awareness of its responsibility for allowing Madoff to orchestrate this multi-billion dollar Ponzi scheme. Kim and Liu (2012) suggested in their government crisis study that practitioners ought to use a response that instructs victims of what they can do following this crisis. Although not mentioned often, this strategy was used once in the first few days following the announcement of Madoff's arrest. The SEC

also used the strategies of accountability and revitalization. Both of these strategies were used in the height of the crisis and also in the months and years following the crisis.

**Table 4**

*Themes and Sub-Themes Discovered*

<b>Themes Present</b>	<b>Sub-Themes &amp; Definitions</b>
“Diminish”	Excuse
“Rebuild”	Concern Compensation Regret
“Bolstering”	Reminder
“Instruction”	Providing Direction
“Other”	Accountability Revitalization

Each of the 80 documents was first analyzed individually to identify overall patterns of themes present during the entire time frame of the analysis to establish overall themes present from the start of their response to the present. Once each document was analyzed and overall themes and descriptions of sub-themes, which were the responses included in each theme, were recorded, the documents were then looked at in date order to evaluate whether or not there was a change in SEC’s response strategies over time, and to gain knowledge into the agency’s initial response in the days, months, and years following the newsbreak of the scandal to see any changes in strategies may have occurred over time and for what purpose. The study was analyzed in this way in an attempt to answer the second research question:

R2: Did the SEC's public responses during the Madoff crisis, from December 11, 2008-September 30, 2018, match the proposed responses suggested by SCCT for a preventable crisis?

After conducting a close read of the 80 documents individually, overall there was a strong presence of SCCT themes and sub-themes aligning with the “rebuild” and “bolstering” strategies that were proposed by SCCT when responding to a preventable crisis, especially in the early days and months following the announcement of Madoff's arrest. The category of “other” was also prominent and later developed into sub-themes based on patterns of similar language and actions that were reoccurring over the course of the analysis. The “other” category was further broken down into two themes of revitalization and accountability because of the frequency of similar language reoccurring in the public documents. The proposed strategy of “instruction” that was adapted by Kim and Liu (2012) was not as prevalent in this study as was expected, as few documents instructed the victims of Madoff who were affected by the crisis with what actions to take by providing them with instructions, especially as the crisis developed. This could be due to the fact that the SEC reached out to victims individually with information without disclosing it publicly. Because this analysis only examined publicly released documents, it may not have been as prevalent in order to protect the victims' privacy.

Only one document in the analysis contained a response from the “diminish” theme, which according to SCCT should be used during an accidental crisis. The sub-theme of excuse, which occurred twice during a congressional testimony when discussing the Madoff scandal, was the response exhibited from the diminish theme. The Director of Enforcement at that time, Linda Chatman Thomsen, who oversaw the Enforcement Office which assists the Commission in executing its law enforcement function, (“What We Do,” n.d.), first used an excuse in a

testimony referring to the number of tips the Office of Enforcement receives and is unable to field and vet: “While we appreciate and examine every lead we receive, we simply do not have the resources to fully investigate them all” (Thomsen, 2009, para. 20).

The second excuse occurred later on in the same testimony, when Thomsen emphasized human nature:

but we need to acknowledge a hard truth our forefathers recognized-if men were angels we wouldn't need government. We wouldn't need laws either. The reality is that people do break the law and when they do so there is harm, sometimes great harm (Thomsen, 2009, para. 30).

Although the diminish cluster was present in this one testimony in the sample by the Director of Enforcement, Linda Chatman Thomsen, it was not the only SCCT theme present. Thomsen also used the sub-theme of reminder, which is part of the “bolstering” theme SCCT suggests should be paired with a rebuild strategy during a preventable crisis. In this case, the Enforcement Director reminded Congressional leaders that while the Madoff scandal was serious and was not caught early, the SEC had a variety of successes in the days following the Madoff Ponzi Scheme arrest:

One need only look at the eight days surrounding the bringing of the Madoff case to see ample evidence of our commitment. During the Monday to Monday period between December 8 and December 15, 2008, the Commission also:

- sued Marc Dreier, an attorney selling bogus notes;
- brought an action against Fidelity traders for taking illegal gifts and gratuities;
- finalized some of the landmark auction rate securities cases, which provided billions of dollars of liquidity to thousands of investors within just months after that market froze;

- sued a Russian broker-dealer for operating in our markets in violation of our rules;
- settled a complex financial fraud matter involving reinsurance;
- filed, in coordination with criminal authorities, an action to halt a wide-ranging market manipulation scheme; and
- filed a \$350 million dollar settled action against Siemens for bribery of foreign officials in violation of the Foreign Corrupt Practices Act, the largest SEC settlement in the Act's 30 year history (Thomsen, 2009, para. 29, footnotes excluded).

While the SEC did use a response aligning with the “diminish” cluster created by SCCT for an accidental crisis, because of its low level of occurrence, it can be assumed that the SEC understood the fault of the agency in failing to catch this sooner, and recognized the amount of responsibility that stakeholders placed on the agency. This is also evident in the fact that the agency did not use any response strategies aligning with the “deny” cluster of SCCT that is to be used when there is low attribution of responsibility to the organization. The agency also recognized that this one failure did not necessarily mean the agency, as a whole, was not effective in its work.

The categories of “deny” and “diminish” were not as prevalent as those responses aligning with the themes of “rebuild,” “bolstering,” and “other.” It became clear during the analysis that while the SEC did tend to align its responses correctly with the proposed response suggested by SCCT for a preventable crisis, SCCT responses alone were not strictly followed and additionally, new response types were discovered. The “other” category was largely represented during the analysis with two primary sub-themes that were created after the patterns emerged with similar language and suggested actions described by the Commission in its publicly released documents.

In an attempt to rebuild its reputation with the American public and maintain the public's trust in the stock market, the SEC needed, as it aligned in their mission, to charge and hold people accountable for their wrongdoing. One of the ways the SEC attempted to respond to this Ponzi Scheme overall from the span of 2008 until 2015, when documents in the sample stopped mentioning Madoff, was to hold other conspirators who played a part in the fraud accountable for their actions and to keep the public and stakeholders aware of such arrests by announcing the arrests and charges presented to those who worked with Madoff to conduct this scheme in various press releases, spotlight pages, and News Digest articles. This response strategy showcased the SEC's law enforcement ability to charge those who participate in illegal practices that can harm Americans who invest in the stock market. Because documents such as the press releases and News Digest articles often announced arrests of Madoff conspirators and the agency intentions of justice being served, one sub-theme that was developed through the analysis of the category of "other" was the accountability response, which focused on the law enforcement function of the Commission. This strategy focused primarily on the SEC charging Madoff and others with criminal charges who were involved in the scheme for their illegal acts. Often, this response strategy of accountability was often paired with one of SCCT's suggested bolstering strategies, more specifically, the sub-theme of a reminder. In the press releases charging individuals for their roles in the scheme, the SEC often also noted the number of convictions and charges that have been made to the date of that press release which address the Madoff Ponzi Scheme, by using language such as, "Today's charges mark the fifth enforcement action taken by the SEC related to the Madoff fraud" (SEC Press Release 2009-182, 2009, para. 11). The agency intended to make it known that steps were being taken to prevent further harm to investors and to

prevent such a fraudulent event from reoccurring in the future by charging those who participated in wrongdoing and illegal practices.

The other sub-theme from the category of “other” that emerged often in the analysis was revitalization, which aligns similarly with the “adjusting information” strategy Coombs (2007) has suggested as a base response where the responsible party expresses sympathy and discusses corrective action, which an organization should use in the beginning when a crisis first breaks and throughout as necessary. Revitalization emerged as a sub-theme in the “other” category through reoccurring language suggesting future-oriented action the SEC planned to take, present both in the height of the crisis and also in the post-crisis phase, to reform its offices and train its employees to do more thorough examinations to prevent events such as Ponzi Schemes from reoccurring. Although corrective action, which is one component of SCCT’s adjustment of information, has been recommended as a base response strategy when a crisis breaks, it is unclear from previous literature (Coombs, 2007) how long the adjusting information strategy should last when responding to a crisis, in order to best prevent further reputational harm. This study in particular suggests that in the case of the SEC’s crisis response, revitalizing and restructuring as a result of a crisis, and holding responsible parties accountable, which can be considered part of an organization’s corrective action, should be a continuing response beyond the base response during the height of the crisis. The sub-theme of revitalization that suggested revitalizing and reforming the agency’s structure and its offices and practices was much more future-oriented. This sub-theme included language suggesting changing practices, rules, or policies, and attempting to recruit new talent, making it a key response in how the SEC was dealing with the aftermath of the Ponzi scheme and how it would revitalize and restructure in the days, months, and years following the crisis.

While these findings summarize an overall analysis of the responses of the Commission from 2008 until now, more important findings were revealed through analyzing the documents in date order in specific time frames and more specific changes in strategies over time were examined and reported in an attempt to answer R3: Did the SEC's crisis response strategies change over time?

The dates that were discovered in the sample dated from December 11, 2008 through 2015. From this sample, the dates were broken down into five different categories for analysis. The first month of the crisis from December 11, 2008 through January 11, 2009 was first examined because during this time period, the height of the crisis was occurring. People were hearing about what had happened but were not yet sure what the outcome of the crisis would be for investors and the American people or the full extent of Madoff's damage. The next category was from January 12, 2009-June 12, 2009, which included the first six months of the crisis. During this time period, news was starting to come out about the SEC's mistakes and more information about what had occurred had come out, but the OIG investigation was still ongoing at this point in time. The next period encompassed documents from the last six months of the first year of the Madoff crisis. During this time period, the SEC was still being investigated and the OIG released its findings to the agency and the public. At this point in time, the SEC was still facing reputational harm. The fourth period of time analyzed included the second, third, and fourth year following the scandal. At this point in time, the SEC was still working to hold people accountable but the full extent of the damage and the SEC's responsibility in the matter was known to the public. Finally, the last time period included year five and beyond after the crisis. This was part of the post-crisis phase for the SEC. Each time period had a wide range of response strategies present, as discussed below.

**A timeline of response.**

**Table 5.**

***Timeframe and Document Count***

<b>Timeframe</b>	<b>Number of Documents</b>	<b>Strategies Present</b>
December 11, 2008- January 11, 2009	7	1 Instruction of Information 5 Rebuilding 2 Accountability 1 revitalization
January 12, 2009-June 11, 2009	10	1 Diminish 4 Bolstering 4 Rebuild 6 Revitalization 6 Accountability
June 12, 2009-December 31, 2009	21	7 Rebuild 10 Bolstering 10 Revitalization 11 Accountability
January 2010-December 2012	31	10 Bolstering 3 Rebuild 20 Accountability 7 Revitalization
January 2013-December 2015	11	5 Bolstering 5 Accountability 4 Revitalization

***A month of Madoff madness.*** Previous crisis researchers have mentioned that practitioners ought to respond to a crisis within the first hour (Barton 2001 as cited in Coombs & Holladay, 2010). Hours after a crisis first breaks is the most crucial response time for an organization in order to best mitigate potential reputational harm because the public or stakeholders are expecting an organization to come forward and comment about how the problem will be fixed and how much damage the crisis has caused. SCCT states that when a preventable crisis occurs, meaning the organization has the most attributed responsibility from the public and its stakeholders, the crisis response should align with the rebuild and the

supplementing bolstering response strategies for best results of limiting reputational harm caused by the event (Coombs, 2007).

The types of documents issued during the first month of the crisis were three press releases, which included a customer information webpage, a news digest article, one congressional testimony, and two court orders. Out of these seven documents there was evidence of one instruction response, five rebuilding responses, two accountability responses, and one revitalization response. News of Madoff's Ponzi Scheme was announced to the public on December 11, 2008. The first response from the SEC to the public, as published on the "News and Public Statements" page on the SEC's public website, was a press release from December 11, 2008 informing the public of the crimes committed by Madoff and information regarding his arrest, which was based on his violation of various securities laws. The SEC's first response strategy aligned with one of SCCT's rebuild strategies, or sub-themes, which is compensation, because the agency first recognized the magnitude of the crisis and sought compensation to the victims by protecting any remaining assets of Madoff's, as evident in a statement by the Director of the SEC's Division of Enforcement, Linda Chatman Thomsen in the press release:

We are moving quickly and decisively to stop the fraud and protect remaining assets for investors, and we are working closely with the criminal authorities to hold Mr. Madoff accountable. (SEC Press Release 2008-293, 2008, para. 3).

Following the arrest announcement in SEC's first response to the public, the rebuild theme continued to be present in the remaining days of the first month of the crisis. In the first month of the crisis, response strategies from the SEC aligned greatly with the rebuild sub-theme of compensation, because SEC agency officials stated what the SEC planned to do to help the investors who had suffered losses due to the fraud by filing court orders to collect and liquidate

Madoff's assets to then be given to the victims in an attempt to recover some of the losses. The agency did this by setting up the Securities Investor Protection Corporation (SIPC), which allowed for the liquidation of Madoff's assets. The sub-theme of compensation was present in the two court orders, one on December 12, 2008, when the SEC filed the application of Preliminary Relief against Madoff and his investment firm, and the other from December 18, 2008, directing Madoff and his investment firm to show cause for why the order should not be filed against the defendant. The SEC released these court orders and kept the public informed of their intentions to compensate the victims and holding Madoff and his conspirators accountable, which was one of the sub-themes developed out of the "other" theme. The SEC in the first month of the crisis also used the strategy suggested by Kim and Liu (2012) of instruction of information, by instructing investors and victims of how to take precautions and steps to attempt to receive some of their lost funds returned. This response strategy was present on an SEC press release titled: Information for Investors. The SEC informed the victims of the Madoff Ponzi Scheme that they could file a claim and instructed them to file the claim by March 4, 2009 and provided customers with contact information as well:

The deadline for filing a customer claim is March 4, 2009. Customer claims received by the SIPC Trustee after March 4, 2009, but on or before July 2, 2009, will be subject to delayed processing and less favorable terms. Claims received after July 2, 2009, will be disallowed. Claim forms should be submitted by certified mail to Irving H. Picard, Esq., Trustee for Bernard L. Madoff Investment Securities LLC, Claims Processing Center, 2100 McKinney Ave., Suite 800, Dallas, TX 75201 (Information for Madoff Customers, 2008, para. 3).

This response showed the victims the SEC was taking action to compensate them for some of the funds they had lost, should the victims take action in filing the customer complaint. This response strategy of instruction, however, was not present beyond the first month of the crisis.

The news digest page from the first month also focused on the preliminary injunction, asset freeze and other relief against Madoff and his investment firm that was going to be used to compensate victims with some of the funds they lost, thus the sub-theme of compensation was present. In the first month of the crisis, the chairman of the SEC announced in his public statement eight days after news broke of the arrest, his intention of having the OIG conduct an investigation about the missteps by the SEC, which showed the Commission's intentions to correct their mistakes in the matter:

I have directed a full and immediate review of the past allegations regarding Mr. Madoff and his firm and the reasons they were not found credible, to be led by the SEC's Inspector General. The review will also cover the internal policies at the SEC governing when allegations such as those in this case should be raised to the Commission level, whether those policies were followed, and whether improvements to those policies are necessary (Cox, 2008, para. 4).

The congressional testimony that focused on the Madoff investigation by the Inspector General at the time, while not immediately addressing the public and how the SEC was working to address the crisis, did confirm that the Commissioner had ordered a full investigation into the matter, which shows the Commission's intention to learn from the mistakes and holding any responsible party accountable. Thus, the accountability response was present in this testimony.

Overall, in the first month of the crisis, the SEC responded largely in accord with the SCCT theme of rebuild using the sub-theme of compensation, which SCCT suggests for a preventable crisis. They also provided instructing information as well as adjusting information, which SCCT suggests as one part of the ethical base response when the initial crisis breaks, and a response in which Kim and Liu (2012) suggested to use in government crisis.

***Six months of strategy:*** Rebuild themes continued well into the first six months after the crisis. In this time frame, more sub-themes of the rebuild strategy such as concern were present. It was in this time period, however, that the one instance of the diminish theme was present in a congressional testimony. There were 10 documents present in this time frame for analysis: six testimonies, three news digest articles, and one press release. Out of the 10 documents there was one instance of the diminish response, four instances of bolstering, four instances of the rebuild strategy, six instances of revitalization, one sub-theme of “other,” and six instances of accountability, which was another sub-theme derived from the “other” category. The majority of documents from this time frame (6 out of 10) mentioning or referring to Madoff that were prevalent during the first six months of the crisis were testimonies by senior staff at the Commission. In these testimonies, when referring to the crisis revolving around Madoff, the rebuilding themes continued to occur, as the SEC staff often showed concern for the victims and showing that they were apologetic that the scheme took so long to uncover. Concern is one of three sub-themes that are part of the larger “rebuild” theme described in SCCT. Coombs (2007) places the concern response under adjusting information, as does Kim and Liu (2012). Concern, for example, was present in one of the testimonies in the second month of the crisis:

We assure the Subcommittee that the Commission and its staff take the alleged Madoff fraud very seriously. The losses incurred by investors as the result of Mr. Madoff's

alleged fraud are tragic, and we appreciate the impact of those losses on the lives of investors (Donohue et al., 2009, para. 2).

Another common theme present in this time period was bolstering, and more specifically the sub-theme of reminding, in which SEC staff took the opportunity to recognize their past successes, and even their successes within eight days following the news of the Ponzi scheme, to show their commitment in the work they do and addressing issues within the stock market.

One of the most prevalent themes though, often paired with those strategies within the rebuild cluster, was the sub-theme of revitalization, part of the larger “other” theme. In six out of the seven testimonies given by staff to Congressional committees, the staff mentioned the Commission’s intention to implement new practices into operations as a way to prevent future fraud as well as prevent Ponzi schemes such as the one committed by Madoff from occurring again: “I am here to pledge my best efforts toward revitalizing the Division and earning back the respect of investors. I know there is much to do, and we've gotten a lot of things started” (Khuzami, 2009, para. 8).

The other four documents in this time period were news digests and press releases, which did not exhibit language suggesting rebuild strategies, bolstering strategies, or revitalization strategies. Instead the major focus was on accountability, another sub-theme of the “other” theme, to hold those either involved directly in the scheme or those financial firms who had investments with Madoff who were deceitful to their own investors or stakeholders accountable by bringing charges against them:

The Securities and Exchange Commission today charged the auditors of Bernard Madoff's broker-dealer firm with committing securities fraud by falsely representing that

they had conducted legitimate audits, when in fact they had not (News Digest, Issue 2009-51, 2009, para. 11).

One response strategy that was not present in this time period was that theme of instruction suggested by Kim and Liu (2012). The SEC in those ten documents did not instruct victims to take action, but rather stated how the Commission would work to retrieve funds stolen from the investors. In the first six months, there was a continuation of the rebuild theme extending from just concern to other responses, and a continuation of the SCCT theme of bolstering. The other theme was also strongly evident but there was no indication of the category of instruction.

***Reforming and rebuilding the remainder of the first year.*** Within the time period of the next six months, from June 11, 2009 until December 31, 2009, there were 21 documents that were publicly available mentioning the Madoff Scandal. Out of the 21 documents there were two public statements, three testimonies, one statement before congress, six speeches, three press releases and six news digest articles. The strategies present in this time period include: seven uses of the rebuild strategy, ten uses of the bolstering strategy, ten uses of the revitalization strategy, and eleven instances of the accountability strategy. Unique to this time period was the release of the Inspector General's report investigating the Madoff matter, which noted all of the missteps of the SEC and failures was released to the public, along with recommendations for the Commission. This report from the Inspector General was released on September 4. The themes present overall in this time period were responses from the rebuild theme, the bolstering theme, and the other theme with prominence of sub-clusters of revitalization and accountability. The public statements and the testimonies had a strong presence of the rebuilding theme, more specifically showing the sub-theme of regret for what had happened as well as expressing

concern for the victims. These responses occurred both in the documents before and after the release of the IG report.

In a public statement released the day of the IG report release, the SEC Chairman stated the Commission's regret for the crisis as well as intentions to reform, repeating some of the comments she mentioned in the statement on the day of the IG executive summary release two days prior:

As I stated earlier this week, it is a failure that we continue to regret, and one that has led us to reform in many ways how we regulate markets and protect investors. In the coming weeks we will continue to closely review the full report and learn every lesson we can to help build upon the many reforms we have already put into place since January (Shapiro, 2009, para. 2 & 3).

Regret, one of the rebuild sub-themes was also present after the release of the IG report. In the testimony given by Robert Khuzami, the Director in the Division of Enforcement at the Time, and John Wash, Acting Director in the Office of Compliance Inspections and Examinations, there was an admittance to failure and regret in handling the Madoff matter, which exhibits the SCCT sub-theme of regret in the rebuild theme:

Having read the IG Report and its litany of missed opportunities, it is clear that no one can or should defend, excuse, or deflect responsibility for the SEC's handling of the Madoff matter. Stated simply, in this case we failed in our fundamental mission to protect investors, and we must continue vigorously to reform the way we operate. We have read letters from harmed investors that were filed with the court in connection with Madoff's sentencing. It is a sobering and humbling experience (Khuzami & Walsh, 2009, para. 3).

The two SEC officials also offered insight into how they intended to revitalize and restructure the SEC, which aligns with the other theme's sub-theme of revitalization:

Today we commit to you, investors across the country and the public generally, that we will carefully study the content and findings of the IG Report and any forthcoming audit reports and continue to implement the changes necessary to strengthen our enforcement and examination programs. We also each personally pledge our unwavering commitment to establish heightened levels of expertise and tenacity within both the Office of Compliance Inspections and Examinations ("OCIE") and the Division of Enforcement ("Enforcement") in an effort to restore the trust of the investors we are charged to protect (Khuzami & Walsh, 2009, para. 5).

The testimony by Khuzami and Walsh also contained the bolstering theme proposed by SCCT, through the use of the sub-theme of reminder:

the agency already had begun instituting extensive reforms, including vastly expanding our training programs, hiring staff with new skill sets, streamlining management, putting seasoned investigators on the front lines, revising our enforcement and examination procedures, restructuring processes to ensure better sharing of information, leveraging the knowledge of third parties, revamping the way we handle the hundreds of thousands of tips we receive annually, and improving our risk-assessment techniques so that examiners are knocking on the right doors and delving into the right issues (Khuzami & Walsh, 2009, para. 7).

This theme of bolstering was also strongly represented in the press releases and news digest articles when referencing charges brought against Madoff conspirators, when reminding the public how many people the SEC had convicted or arrested related to the Ponzi scheme. In

addition to the presence of the SCCT themes and the revitalization response that were used by the SEC when discussing the Ponzi scheme, the sub-theme of accountability was also represented, more often in press releases and news digest articles. The news digest articles and press releases focused more on the sub-theme of accountability by discussing and sharing with the public the work they were doing to hold every person involved in the Ponzi Scheme accountable and making sure investors knew that they would get justice by convicting those who wrongly stole their money, as evident in an August 11, 2009 news release:

The Securities and Exchange Commission today charged Bernard L. Madoff's chief financial officer, Frank DiPascali, with securities fraud for overseeing the mechanics of Madoff's entirely fictitious investment strategy and creating millions of phony documents and trading records to conceal the fraud from regulators and investors (SEC Press Release 2009-182, 2009, para. 1).

Overall, in the last six months of 2009, the SEC used a combination of SCCT themes of rebuild and bolstering through various sub-themes, and the theme of other, through sub-themes of accountability and revitalization when addressing the situation publicly. There was not language that suggested the presence of the remaining themes of deny, diminish, and instruction.

***Post-Crisis reform: arrests and accountability, 2010-2012.*** A year following the crisis through the end of 2012, there were 31 documents released to the public by the SEC. Nine out of the 31 documents released from this time period were press releases, 15 were news digest articles, one was a spotlight page, three were speeches, and three were congressional testimonies. Two of those documents mentioned other organizations who were deceptive in reporting their losses from the Madoff scandal, which is why they were facing charges. In this time frame, there were 10 instances of the bolstering response, three instances of the rebuild response, 20 instances

of the accountability response, and seven instances of the revitalization response. In this time period, overall, the rebuild theme is less represented. Instead, there is a stronger presence of the themes of bolstering and sub-themes of accountability and revitalization, but nevertheless, the rebuild strategy did still have presence in this period. In a March 19, 2010 speech there was one indication of the rebuild theme through the sub-themes of regret and concern for the victims, which was expected more in the earlier stages of the crisis such as the first month through the first year when the crisis and investigation into the matter was still occurring:

There was a steady stream of harsh criticism. Some of it was directed at all financial regulators questioning why more was not done to prevent the credit crisis or mitigate its impact. Other of it was directed at the SEC specifically, including that arising out of the egregious fraud of Bernard Madoff, and of our failure to take steps sooner to prevent it. For a proud group of dedicated public servants, these criticisms — and the tragedy of investors who lost so much — were felt deeply and profoundly (Khuzami, 2010, para. 4-7).

The response strategy of revitalization was indicated mostly in the spotlight article, the speeches, and the testimonies in this period, once again with SEC officials focusing on what changes have been implemented and the work that is still left to do to prevent such a fraudulent act from reoccurring, the response sub-theme of revitalization was often accompanied with the bolstering strategy of reminder, which focused on what changes had already been made. In a November 9, 2010 testimony, there is evidence of these strategies of revitalization and bolstering working together when the Chairman at the time, Mary Schapiro, discussed the improvements in the SEC's systems but also focuses on the future work needed to keep up with the changing stock market:

Only in the last fiscal year have we been able to begin investing in several new or improved IT projects and systems. Our earliest technology initiative was a direct and important response to the Madoff scandal: creating a database that would allow us — for the first time — to centralize, organize and search the incredible volume of tips and complaints we receive. Another key investment has been establishing a system to manage the millions of documents we obtain — to improve the management of our enforcement cases and the consistency of our inspections and examinations. Though we are making progress on technology, we still have far to go to keep up with our markets (Schapiro, 2010, para. 33-36).

Accountability was strongly present in the press releases and the news digests, which focused on announcing arrests of conspirators involved in the Madoff scheme. The bolstering strategy was also largely present alongside the response of accountability in these press releases and news digest articles, as evident by the SEC's reminders of how many arrests they had made prior in the Madoff case:

The SEC previously charged two other longtime Madoff employees Annette Bongiorno and JoAnn Crupi for their roles in producing phony account statements that were sent to Madoff investors. According to the SEC's complaint against Kugel filed in U.S. District Court for the Southern District of New York, Bongiorno and Crupi and other staff in Madoff's investment advisory (IA) operations used the information provided by Kugel to formulate fictitious trades to appear on investor account statements (News Digest Issue 2011-224, 2011, para. 4).

In addition to these themes that were present in this period of time, it was made known in a testimony by the Inspector General that the SEC did take recommendations by the OIG, which

is worth noting due to the influence the Inspector General plays as a “watchdog” in government agencies:

For example, after our investigative report found that the SEC failed to respond appropriately to credible tips and complaints about Bernard Madoff’s operations by conducting competent examinations and investigations, we made numerous recommendations designed to reform the SEC’s system for handling tips and complaint system. The SEC has implemented these recommendations and instituted a new Tip, Complaint and Referral (TCR) system in order to ensure that complaints received are acted upon in a timely and appropriate manner at a total cost of approximately \$21 million (Kotz, 2011, para. 11).

Similarly to the end of the first year following the crisis, there were responses from the SEC aligning with the rebuild theme, though not as present as earlier on in the crisis, bolstering, and the theme of other.

*5 years post-crisis.* In the timeframe from January 2013 through December 2015 there were 11 publicly released documents including: four news digest articles, two press releases, two speeches by SEC staff, two public statements, and a spotlight article. There were five instances of the bolstering strategy, five instances of accountability, and four instances of the revitalization strategy. The rebuild theme was not present in this time period, nor were the themes of deny, diminish, or instruction.

The bolstering strategy of reminder continued to be present throughout this time period, and more specifically in the spotlight article as well as one press release and one public statement. The spotlight page was focused on how to define a Ponzi scheme, and a list of Ponzi scheme the SEC had identified, reminding the public of their successes in addressing and

investigating Ponzi schemes after the Madoff crisis. In a press release announcing the departure of an enforcement co-director, it was stated how instrumental the co-director was in implementing new approaches in response to the Madoff Crisis:

After being named director of the New York office, Mr. Canellos was instrumental in its response to the revelation of the Bernard Madoff Ponzi scheme, overseeing investigations and fraud charges against 22 individuals and entities. Mr. Canellos led the implementation of new approaches to examinations of investment advisory firms while more closely integrating the teams responsible for examinations of broker-dealers and investment manager (SEC Press Release 2014-1, 2014, para. 7).

The other prominent theme was the theme of other which was identified through the sub-themes of accountability and revitalization. The theme of other was present most often during this time period. There were no documents mentioning Madoff that appeared to be released after 2015.

It is evident in these findings, SCCT themes, alongside other themes from literature, and themes and sub-themes that emerged in this analysis, have been applied in a government crisis context. The findings from the analysis of 80 documents present an argument for the expansion of SCCT in a government context and also offer new directions for government crisis communication experts when responding to crises because both SCCT strategies and non-SCCT strategies were used by the SEC when communicating with its external publics. Although this is just one crisis a government agency has faced, its implications can better serve those in a Public Relations position at a Federal agency by taking this example and applying what the SEC did, did not do, and what they can learn from this study's findings. While the findings have been explained, it is important to consider how the findings suggest an expansion in government crisis

communication, especially when applying the theory of SCCT, and during which periods of time certain strategies ought to be used.

## Chapter 5: Implications and Discussion

This study illustrates how SCCT strategies were used in a government crisis response for a preventable crisis, signifying the importance and applicability of SCCT in a government crisis context. It also illustrates the need for further expansion of SCCT response strategies when a government agency is dealing with a crisis. Unlike other organizations that have been affected by crises in the past, the SEC as a government agency has the obligation to protect investors and to ensure the integrity of the stock market, while also protecting American citizens from harm. Due to its missteps in the way the SEC conducted its evaluations and investigations, the Madoff Ponzi scheme went on for years longer than it should have. As a result of human-error and the agency overlooking Madoff's business practices and inability to execute its oversight responsibilities, many Americans suffered losses to their financial stability. As a result of this, the SEC did face reputational harm, with many people questioning its practices and legitimacy as a government agency. Government agencies have more to lose when it comes to legitimacy, compared to corporations, because of the agency responsibilities to protect American citizens. Government agencies also have more rules and regulations they must follow to ensure protection of citizens and thus cannot be as transparent as corporations with certain information.

Because SCCT categorizes human-error as a preventable crisis, the SEC faced the most attributed responsibility for their lack of action in catching Madoff sooner. In the case of a preventable crisis, the organization has little time in responding to their public and making a statement about the crisis at hand. Coombs (2010) states that an organization has approximately one hour to respond to a crisis, once it breaks. While it is unclear of the hour the first press release regarding the scandal was released to the public within an hour, it is clear that the SEC quickly took action by instructing victims of how to seek emergency relief, aligning with

adjusting information, which SCCT notes as the base crisis response. In addition, the SEC used rebuild and bolstering strategies that suggest the ability for SCCT to be used in a government setting. SCCT strategies were used consistently throughout the response cycle of the crisis by the SEC, which should be considered as a “best practice” for government public relations practitioners. This consistency was evident through an analysis of the SEC responses over different periods of time.

### **Consistency of Response**

The third research question (R3) sought to determine whether the SEC’s crisis strategies changed throughout the different stages of the crisis. As evident in the analysis, the strategies used throughout were rebuild strategies, bolstering strategies, and the newly defined strategies of revitalization and accountability. Although the diminish and the instruction of information strategies were present only once, consistency among the other strategies suggest that the SEC’s response as a whole was consistent throughout 2008-2015. These themes were consistently used throughout all stages of the crisis, which shows that the SEC did not need to adjust the strategies it was using in order to address the public and its victims. Had the SEC not kept consistency in its messages overtime, the public might have become more speculative which may have led to more reputational harm, because it could be assumed that the SEC did not know the extent of the problem and what was needed to fix it. Although the rebuild response was expected to be prevalent in the initial break of the crisis, keeping consistency with this strategy in particular showed that the SEC did not just seem sorrowful in the wake of the crisis to address attributed responsibility from its publics, but genuinely was concerned about the crisis even years later. The agency and its leaders were able to accept responsibility and learn from the crisis as evident in the years following when the Madoff scandal was still being used to illustrate how the SEC had

reformed its practices. By expressing regret in the years following, it also showed victims and the public who may have doubted the agency that the SEC was being sincere in its response and recognized its faults, instead of the agency just stating what it thought the public ought to hear.

Consistency in a crisis response can be crucial for maintaining organizational legitimacy with an organization's stakeholders. It is "essential to building the credibility of the response. A consistent message is more believable than an inconsistent one" (Coombs 1999 p. 159 as cited in Massey 2001). This is why it is important for PR practitioners to be consistent in messages especially in a government context, because credibility is crucial when rebuilding trust with the public who is relying on your agency to protect them, and it is also important when the agency has the function to hold those responsible who do not uphold securities laws and regulations. Consistency is one way to build and maintain this credibility as an organization. As supported in other studies (Massey, 2001), consistent crisis responses are more effective than inconsistent crisis responses in maintaining legitimacy between an organization and its stakeholders (p. 168). The SEC also proved legitimacy by using the correct corresponding strategies suggested by SCCT for a preventable crisis in addition to other response strategies.

### **Implications for SCCT as a Government Communication Strategy**

The SEC was attributed responsibility for the Bernie Madoff crisis and because of such practices by Madoff, many investors who trusted the SEC to protect them from dangerous investment practices were harmed. Many lost homes and some even took their own lives. Because of these reasons, the SEC had to act fast and act in the best interest of the public, who may have doubted its abilities as an agency, and also act in the best interest of the investors, who were victimized and lost their own fortune due to the lack in the ability of the SEC to catch Madoff earlier. R1 asked which SCCT strategies were present in the SEC's public response to

the Bernard Madoff scandal, in an effort to determine if this theory has merit in government crisis communication, especially when an agency is faced with a preventable crisis. While the Commission made an announcement through a press release, about the arrest of Madoff on the day it happened, it was not until December 12, 2008 that the financial world began to realize the extent of the damage done by Madoff and its impact on investors (Telegraph, 2010). In the days that followed after the initial announcement while the world was reacting to the news, the SEC continued to take action by ordering courts to liquidate Madoff's assets, which displayed the Commission's desire to compensate victims, which aligns with the sub-theme of compensation in the rebuild theme that SCCT suggests in the case of a preventable crisis. The SEC initially did take appropriate action as outlined in SCCT in its initial response, and also foreshadowed the later crisis response of accountability, by stating their intentions to hold Madoff accountable for the damages that were committed.

In the first month alone, on December 18, Harry Markopolos revealed that he had been reporting Madoff's business practices to the SEC for years (Telegraph, 2010). Three days later, news broke with tragic news revolving around a French hedge fund manager committing suicide as a result of his losses of \$1.4 billion because of Madoff (Telegraph, 2010). As news was spreading regarding victims of the scheme, especially during the first month, it was crucial that the SEC accept responsibility for the crisis and not place blame onto others in its response to the public, which is the action that was taken as evident in the analysis, and in the announcement by the SEC Chairman stating that he had ordered the Office of Inspector General to conduct an investigation into how the Commission failed to take action.

The rebuilding theme continued well into the first six months and even the first year, which show the Commission's commitment to accepting responsibility, using the additional

rebuild sub-theme of concern. After the first month, the Commission began to rebuild their reputation by also applying the SCCT's theme of bolstering by reminding the public of its good works and commitment to its mission of protecting investors. Being used along with the rebuild theme, the SEC applied SCCT's proposed strategies in dealing with a preventable crisis, which shows the applicability of SCCT in a government setting. By using this strategy, the SEC continuously reminded the public that although the agency did have one slip-up in handling Madoff, the agency has had numerous successes in other areas of work. The remainder of the first year of the crisis saw no change in the SEC's response strategies as they aligned with SCCT. The Commission continued to accept its responsibility for the crisis and was working to rebuild its reputation with its stakeholders, the victims of the crisis, and all American investors whose trust in the SEC was lost as a result of the Madoff scandal through expressing regret both before and after the release of the OIG report. By rebuilding its reputation using rebuild and bolstering strategies before the release of the OIG report, it showed the genuine regret and remorse of the SEC. The agency did not wait until after the report noting all of its faults was released before it responded sincerely to the public. Regret and concern, although they were used later in the first year of the crisis, would have been better executed if they were used more alongside the compensation response during the first month of the crisis. Nevertheless, the correct strategies according to SCCT for a preventable crisis were used and used at the appropriate time.

Surprisingly, in the years following the scandal, the SEC was still using the rebuild theme by showing regret and concern for the victims, which was expected in the earlier stages of the crisis, as well as bolstering by reminding others of the steps the Commission had taken and the other important work it has done following the scheme. This finding reinforces the acknowledgment by the SEC regarding the magnitude of the crisis and its intention to fix and

prevent such a fraudulent scheme from reoccurring, especially by reporting to the public and to Congress the implementations that had been put into place at the Commission. Although the findings revealed that SCCT themes were present in the SEC's response to the public, those responses alone were not the complete response. Other strategies the SEC used propose new insights in to Government crisis response, and suggests the expansion of strategies when applying SCCT in a government context.

### **Expanding SCCT for Government Agencies**

While the SEC in its response to the public regarding the Madoff scandal used the appropriate SCCT strategies, the agency's response strategies went beyond the theory, which suggests potential for expansion in this theory and in the field of crisis communication research when examining government agencies. The theme of "other" was created as a means to note any responses that were used that did not align with SCCT. The analysis identified two responses that were prominent in the SEC's response. Those sub-themes discovered were accountability and revitalization, both of which are important to consider from a government crisis standpoint, especially as part of corrective action. The first response, accountability, was crucial for the SEC to use, as it is the agency's duty to "protect investors, maintain fair orderly, and efficient markets, and facilitate capital formation" ("What We Do," n.d.) The agency has a primary responsibility to:

- Interpret and enforce federal securities laws;
- Issue new rules and amend existing rules;
- Oversee the inspection of securities firms, brokers, investment advisers, and ratings agencies;
- Oversee private regulatory organizations in the securities, accounting, and auditing fields; and
- coordinate U.S. securities regulation with federal, state, and foreign authorities ("What We Do," n.d.).

By being transparent with the public and releasing information regarding the arrests of Madoff conspirators, the SEC was holding true to its mission in its responsibilities to enforce securities laws. By keeping the public aware of its intentions to charge all parties involved, the SEC showed that, despite overlooking red flags that could have caught Madoff years earlier, the agency could still successfully conduct business they are responsible for doing by holding those who break the law accountable. This strategy is not only significant to consider in the case of this one agency, but should be considered as a response strategy in other government crises, especially those agencies that have a law enforcement function and also a mission to protect American citizens. This law enforcement ability is what sets agencies apart from other types of organizations. While other organizations have the ability to file criminal lawsuits, the SEC and other government agencies have the ability to charge and prosecute people who break securities laws. Accountability as a response strategy, therefore, should be considered as part of a government agency's crisis response, especially when it has that law enforcement ability. This strategy ought to be used as part of the corrective action strategy that SCCT suggests.

Part of the federal government's role is to keep Americans safe from harm whether it be from terrorism, natural disasters, or in this case, financial harm. When a crisis arises, it is important to know your key public and know what they need from you. The SEC clearly evaluated this in the midst of the crisis knowing that investors suffered due to the agency's prolonged action against Madoff and that trust in the SEC to keep them safe was damaged. The SEC in the months and even in the years following the crisis, worked hard to keep transparency with its public and the investors by keeping them informed about how the agency was addressing the crisis and was adhering to its mission by charging those who violated the law. Because of the way the SEC executed this strategy, other agencies when faced with a crisis should consider this

response strategy in order to boost its reputation by doing deeds the public will see as safe measures of protection such as putting away criminals. This also shows the public the agency's intent to adhere to its mission to protect the American people.

The response strategy of revitalization was also discovered as a prominent response used by the SEC in its response to the Ponzi scheme, and this response aligns well with adjusting information SCCT suggests as the base response for a crisis (Coombs, 2007), but more specifically focuses on reforming offices and taking new initiatives that are oriented in the future. This response was used often in all stages of the crisis response and focused on the reformation and restructuring of the SEC's offices and its practices, which can be argued to be become a strategy of corrective action, which has been suggested as a base crisis response by Coombs (2007), in order to prevent a repeat of the crisis. This response and its frequency in the case of the SEC is another response for agencies to consider when responding to a crisis, because it suggests the use of revitalization as a specific response of corrective action even after the initial crisis occurs. Stakeholders and the public want to know how an agency plans to fix a crisis and to what extent the agency plans to address it and prevent it from happening again. When an agency's practices are questioned, as they were in the aftermath of the Madoff Ponzi scheme, it is important for the agency to determine how to make its offices run more efficiently and get the job done to prevent such a crisis from reoccurring.

SCCT argues for corrective action as a base response when providing adjusting information at the height of the crisis (Coombs, 2007), but the SEC went beyond that base response in discussing with its public the steps they were going to do in order to reform the agency offices and each office's processes when conducting evaluations and investigations into investment firms, as a result of what they had learned from the Madoff crisis about the mistakes of

the agency's practices and the way it conducts its business. Years after the crisis, the SEC was still informing the public how the agency was working to become better through actions they were planning to implement since the time of the crisis, and future initiatives, which shows the SEC's intentions to learn and to prevent such an event ever again. Unlike Kim & Liu (2012) who found that government organizations in their sample were less active in providing adjusting information, which surprised the researchers due to the fact that the government's goal is to provide for the public good (Kim & Liu, 2012, p. 81), the SEC did the opposite. Because of the way the SEC used this response in repeatedly stating its intentions to do better as a result of the crisis, in order to build public trust, this study underscores that this response should be considered at all stages of the crisis, including the post-crisis phase, because in this time, the agency can really focus on implementing efforts of prevention and in planning for future potential crises.

Revitalization, if incorporated as a crisis response strategy as part of the corrective action base Coombs (2007) discusses, should not only be present as a base response, but also as a continued response at all levels of a crisis. After conducting this study, it can be proposed that this strategy expand SCCT as a corrective action response, because the SCCT strategy of bolstering was often paired with revitalization, by consisting of agency leaders reminding the public of what works that they earlier stated they intended to implement were actually implemented. This can enhance an organization's reputation by first allowing them to suggest steps taken to address the crisis and prevent further damage, and then allowing the organization to obtain reputational benefits in the future by reminding the public that it actually did take those steps outlined in its corrective action plan. The SEC in the beginning of the crisis discussed how they would fix the problem, and then later in the crisis referred back to changes they had made as

a result of the crisis, which illustrates the bolstering strategy of reminder. Using the revitalization strategy throughout the phase of a crisis, gives the agency more opportunities to bolster and remind the public about the work it has done and can show the public how the agency remained true to its word of restructuring and learning from the crisis. This, if used accurately, can help the organization rebuild its reputation with the public post-crisis because the agency would actually be delivering on its promises that were set forth to the public when the agency discusses how it plans to fix the problem. Accountability and revitalization, two strategies not present in SCCT, were strongly present in the SEC's response, making them important to consider when an agency faces a government crisis, or when examining a government crisis through the lens of communication research.

The combination of the SCCT strategies and the newly found strategies allowed the SEC to reach the majority of its publics effectively, including the OIG, Congress, and American citizens who invest in the stock market, by being transparent in its practices and what it was doing, following the advice provided by the Inspector General, providing evidence supporting its intentions to fix what was broken, arresting those who violated the law, and by admitting responsibility for the crisis. The SEC also showed the public it was concerned about the well-being of the victims of the crisis, and adhered to those suggestions from the OIG to prevent this tragedy from reoccurring. That public consists of the victims of Madoff who lost hundreds, thousands, or millions of dollars through this Ponzi scheme. There was one public, however, who should have been addressed more effectively in the SEC's public response.

### **Missed Opportunities for the SEC**

A few days after the crisis, the SEC released a press release that instructed investors how to apply for emergency relief, which verifies the instruction of information response that Kim

and Liu (2012) suggested in a government crisis based on their study examining government crisis response to the flu pandemic. This response was important as it provided investors insight into how the SEC was going to aid victims. It was interesting to discover that one strategy in one type of agency was not as prevalent at another agency. This press release, however, was the only publicly released statement on the “News and Publications” page that provided instructions to investors. This study did not have the same results as Kim and Liu’s (2012) study which found that government agencies “were more likely to emphasize providing information” (p. 80). Not using this strategy further into the crisis was a misstep by the SEC. With the responsibility to protect investors, it should have been more of a priority to remind victims with what actions to take in order to best accommodate those who were harmed by the crisis. If an individual in the public knew someone affected who had invested in Madoff’s company and did not see the release instructing Madoff customers, they would have missed the response regarding how the SEC was working to help the victims, and as a result, that individual affected by Madoff could have missed the deadline.

It would have been more effective for the SEC to include the instruction of information in each piece of public documentation regarding the scandal up until the deadline for filing for financial relief, especially because the financial burden people were suffering from could have been prevented had the SEC caught Madoff in the late 1990s. Every PR practitioner understands that in order for messages to be well received and reached to the intended publics, the message ought to be repetitive for a chance for all members of the public to be exposed to it. The SEC missed the mark on telling the public how to be relieved from some of their financial burdens with repetition and consistency in its messages to ensure that those seeking help or information were able to find it in a timely manner. The SEC, to promote how the organization would protect

victims, should have made the information for victims more available and transparent across different public documents.

### **Implications for Government Public Relations Practitioners**

The case of the SEC and its response to the Bernie Madoff scandal illustrates the suitability of SCCT to a government context. Practitioners working in the government should model responses after the SEC, being quick to respond and consistent in their messaging. The rules for public comment regarding events, reports, or even crises at a government agency are more complex than at other organizations, especially because the federal government has the obligation to protect its citizens. Because of this reason, it is important for practitioners to act quickly and efficiently in order to best maintain the agency's reputation with the public, which are the American citizens. Adhering to findings from past literature (Coombs, 2007; Kim & Liu, 2012) and findings from this study, when faced with a crisis, government public relations practitioners should be adjusting information, as suggested by Coombs (2007), by more specifically telling the public how the agency will revitalize by fix its mishaps, and reform and restructure the agency, while also holding responsible parties accountable for their wrongdoing, which is exactly how the SEC handled this crisis. Practitioners can do this by releasing public information regarding future implementations the agency is considering to address the problem, and by being transparent with the release of information that holds others accountable for their actions as it pertains to a specific crisis.

Practitioners should recognize the importance of offering adjusting information, such as corrective action throughout each stage of the crisis, and in the years following, in order to keep the public well informed regarding the agency's intentions to fix the issues that caused the crisis in the first place. Practitioners should also understand that SCCT strategies alone may not be

enough to fully address stakeholders or the American people who were placed at harm. If a practitioner is working at an agency with law enforcement responsibility, he or she should encourage management to release information regarding arrests or other measures holding those who break the law accountable because it shows the public the agency's intent to abide by its mission and its willingness to protect the public from events that can threaten them.

This case also illustrates the merit of using SCCT in a government context in the case of a preventable crisis. Practitioners should consider when creating a crisis plan, strategies that have been applied at other agencies, and have been tested through research such as those in SCCT. Agencies can follow by example, when faced with a preventable crisis, to apply rebuild strategies such as compensation, regret, and concern to address the needs of the American people who have been affected, while also using response strategies that adhere to its mission. Part of the practitioner's and the agency's response should include consistent messaging as it can build trust and credibility between the organization and its public when used correctly. While the SEC kept consistency in messaging, there was one clear area the agency lacked with response to the public. As Kim and Liu (2012) suggest, government agencies should use the response of "instruction of information" to aid victims of a crisis in receiving help during a difficult time at the agency. Because the public looks to the government for protection, it is vital for practitioners to keep the public well informed of steps they can take on their own to address any fallouts they faced due to the crisis. This case provides both suggestions as well as learning opportunities to better equip government agencies when faced with a preventable crisis, and offers SCCT as well as other supporting strategies unique to this case, to aid government agencies when creating a crisis response plan.

## Chapter 6: Limitations and Conclusion

Case study research is argued to have limitations because findings are often not generalizable (Woods, 2018); however, this study provides insight into real world application of SCCT and its promise in government crisis response. In regards to the instruction theme seeming inconsistent and not present in the SEC's public documents, it could be that the SEC reached out more to victims individually such as over the phone, with handwritten letters, or via email distributing information about steps for the victims to take, instead of publicly to maintain confidentiality of those harmed and to keep them better protected against scams that could have later targeted them. One limitation in this study is that this textual analysis only examined the public documents that were posted on the SEC's public website. This study did not examine any internal communication between the SEC and potential victims of the scheme, which could have revealed more insight into whether or not more instruction of information was present during the height of the crisis, and how the SEC addressed victims.

If this study was to be replicated, it is suggested that the method also include interviews with current SEC staff about any communication between the SEC and its stakeholders and victims of Madoff. This may also reveal whether or not the SEC offered a formal apology directly to investors of Madoff, which would align with the rebuild strategy. Future studies should measure the internal response of the SEC to gain insight into how the SEC worked with victims internally without disclosure of such practices to the public. Providing more instructive information throughout the crisis publicly however, would have shown more of an effort to other investors, not affected by the Ponzi scheme, of the SEC's efforts and ability to aid those investors in the case of another crisis occurring, especially as news was being released regarding the SEC's failure to take action and news about the victims of the Ponzi scheme.

Another way this study can be expanded is by examining external public news coverage about the Madoff scandal. This could reveal any pressures the SEC may have been under by other agencies such as the Department of Justice, or Congress in general that may reveal new insights into why the organization responded in the manner that it did over the course of this analysis. It was also stated the SEC partnered with other agencies and organizations in order to investigate Madoff and present charges against him. By examining the external publications of these agencies pertaining to the Madoff scandal, it may give more insight into how the government as a whole addressed this massive financial crime, and the government-wide response and its work to prevent this massive fraud from reoccurring.

Another limitation is that this case study examined one specific crisis at one specific type of government agency. In order to gain more insight into best practices for government agencies across the government, and not just those in the financial sector of the government, it may be beneficial for future researchers to analyze themes of multiple agencies facing preventable crises, to note cross-government themes. By examining different agencies such as those involved in healthcare, those in defense, and those in the financial world, researchers may be able to clear up variances in crisis response that were present in responses from this study compared to other government crisis studies. While government crisis communication research has now addressed a preventable government crisis, future research should test SCCT and its merit in a government context by examining a government agency crisis that would be defined in terms where the government agency is a victim of a crisis, or the crisis is accidental. This will allow for the theory to be tested in all three crisis types the theory identifies and can help bridge any gap between the correlations of crisis type and the response strategies aligning with a specific crisis.

Future research into examining the SEC and its crisis strategies should look at more than just one instance of crisis at the agency to measure and test the prior crisis history element of SCCT. The SEC has faced numerous crises in addition to the Madoff Scandal including its mismanagement in monitoring Enron, and its attributed responsibility for the subprime mortgage crisis in 2007, which had warning signs (Moyer, 2008). By examining the SEC's involvement in other crises in addition to the Madoff fraud, future researchers can examine whether or not the bolstering, revitalization, and accountability efforts of the SEC that were present in this study, was part of an ongoing strategy to address past crises, or if these responses began specifically after news of the Madoff scandal broke, forcing the SEC to reform its agency. Future researchers should examine the agency's crisis track record, in order to also determine prior reputational harm the SEC may have been experiencing prior to the Madoff scandal to determine if prior crisis history had any attributed effect on the public and how they perceived the agency. This study did not address prior reputation or public perception of the SEC before and following the crisis, which could have given more insight into whether or not the SCCT strategies or other strategies used were effective and if those strategies were part of a more long-term crisis response plan to address its failures over the years.

While research in this area needs expansion, this study offers suggestions to aid government public relations practitioners when faced with a crisis where the agency faces the most attributed responsibility. As evident in the SEC's response to the Bernard Madoff Ponzi scheme, SCCT can be used as a starting point for agencies when faced with a preventable crisis. Agencies should also consider using the strategies proposed in this study of revitalization and accountability. This study suggests expansion for SCCT, especially in a government context. While the strategies used in this instance aligned with SCCT, this study found additional

strategies that were used, that did not necessarily fit into an SCCT cluster, but could be addressed as an additional cluster if the theory was to be expanded. Future researchers should test other crises with the proposed strategies of accountability and revitalization because these strategies can aid with the process of adjusting information, which SCCT emphasizes as a response at the start of a crisis. This idea of adjusting information should be expanded in order to fit into a specific crisis response cluster, as no cluster currently accounts for further action an agency plans to take and eventually does take to correct the wrongs that occurred during a crisis. Further elaboration is also needed in terms of when to use corrective action and the adjustment of information Coombs suggests, and in which stages of a crisis such corrective action should be present. It would also be beneficial for future researchers to study which type of responses should be included as part of corrective action, this could expand response strategies further in SCCT. This study in particular, exhibits the revitalization of the SEC as part of its corrective action at all stages of the Ponzi scheme, both during the height of the crisis and in post-crisis communications.

In a government crisis setting, specifically, agencies should consider the strategy of revitalization to provide the public with intentions of addressing problems and fixing agency practices as a result of the crisis to exhibit its intentions to learn. Those agencies with law enforcement authority should also consider being transparent with announcements of arrests as they relate to a specific crisis, to exhibit the agency's ability to fulfill that part of the mission. Overall, this study can be applied to other agencies facing financial crises that occurred as a result of some fault of the agency, in order for an agency to best rebuild its reputation and minimize crisis harm as it relates to the responsibility of the agency.

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