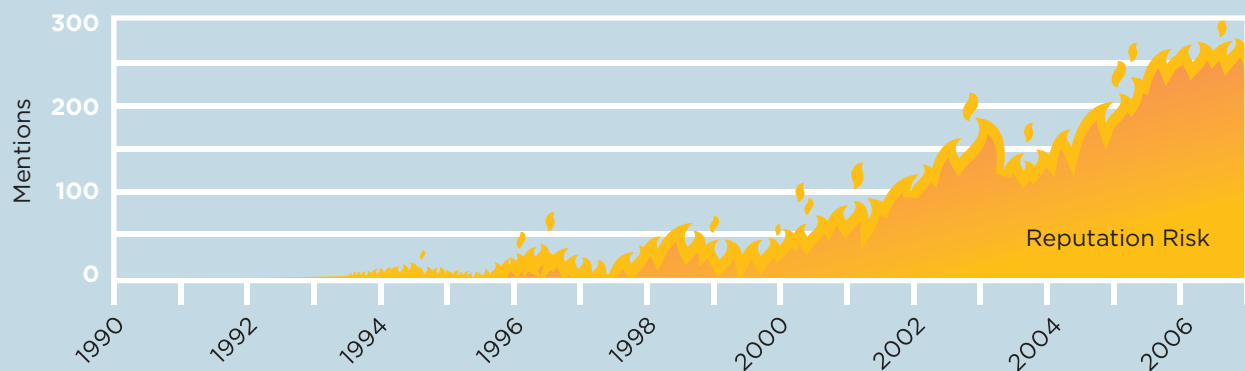


SAFEGUARDING REPUTATION



No suit of armor is impenetrable enough to withstand the reputational slings and arrows directed at companies and their leaders today. Higher standards of corporate governance, citizen journalism, a more cynical public and emerging pressure groups have all combined to create a new business environment in which corporate reputation has never been a more valuable and differentiating asset — or more at risk.

Global Media Coverage of Reputation Risk



KEY COMPANY ASSET LIES IN JEOPARDY

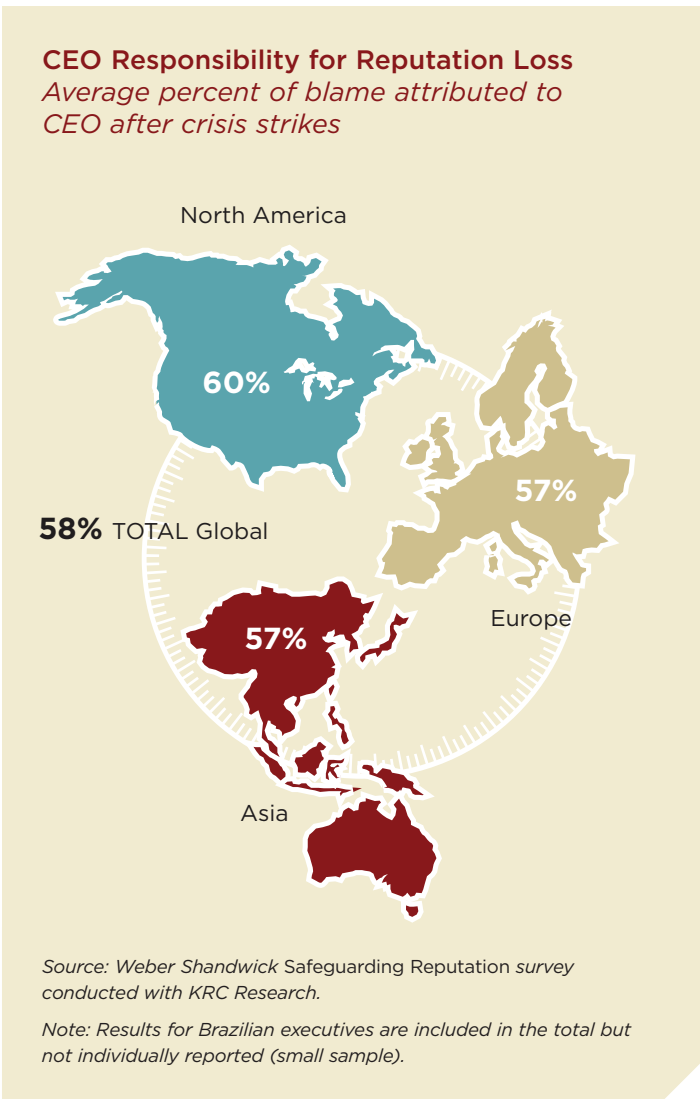
Weber Shandwick's *Safeguarding Reputation*™ survey of 950 business executives worldwide revealed that a sizeable 63 percent of a company's market value is attributable to reputation. However, nearly nine out of 10 executives agree that there has been a growing trend of corporate reputation damage. According to a 2005 Economist Intelligence

Unit study, reputation risk is nearly three times greater than the risk of terrorism and the risk of natural disaster. It also far surpasses regulatory, human capital, IT network and market risks. In addition, a Weber Shandwick proprietary analysis revealed that in 1990, there were only two mentions of "reputation risk" in the global media, compared with 270 in 2006 (135 times

more mentions). With the threat of reputational damage now lurking around every conceivable corner along the path to business success, companies can never underestimate their vulnerability or the severe cost of even the slightest misstep.

REPUTATION CAN BE PROTECTED AND PRESERVED

Despite the seemingly unending onslaught of ever-changing threats to reputation, companies do not need to stand defenseless in their efforts to protect themselves. By identifying and responding to key triggers of reputation failure as soon as they reveal themselves, companies can protect their hard-earned reputation. Remaining vigilant to these key triggers also gives added protection to the CEO, whom nearly 60 percent of business executives blame when companies lose reputation after a crisis.



TRIGGERS THAT TOPPLE REPUTATION

Global business executives participating in the *Safeguarding Reputation* survey identified the leading triggers of reputation failure. At the top of this list are financial irregularities (72 percent), unethical behavior (68 percent) and executive misconduct (64 percent). Other frequently mentioned strikes against reputation are security breaches (62 percent), environmental violations (60 percent), and health and safety product recalls (60 percent). Despite widespread media coverage, and in some cases severe consequences for any wrongdoing, many key triggers continue unabated—alleged stock-option backdating, corrupt governance, consumer information security, and pipeline leaks and salmonella or e-coli scares, among others.

“Interestingly, many of the reasons causing companies to suffer reputation loss are self-inflicted. Financial irregularities, unethical behavior and executive misconduct are all issues that could be prevented if companies had better controls in place,” said Weber

Shandwick Chief Reputation Strategist Dr. Leslie Gaines-Ross. “As more reputations deteriorate worldwide, companies need better reputation radar systems to identify and track approaching reputation threats.”

Also noteworthy is that today’s global business executives underestimate the severity of a number of significant reputation threats. Approximately one-third of survey respondents place CEO compensation, online attacks or rumors and top executive departures low on

the list of triggers that tarnish reputations. “Companies continue to overlook how damaging threats from online activists and pressure groups can be if they are not prepared to respond quickly and decisively,” said Weber Shandwick President Andy Polansky. “The survey also underscores how executives around the world are underestimating the significance of rising executive departures.”

| Factors That Can Significantly Damage Reputation | TOTAL Global | North America | Europe | Asia |
|--|--------------|---------------|--------|------|
| Financial irregularities | 72% | 74% | 70% | 71% |
| Unethical behavior | 68 | 66 | 69 | 61 |
| Executive misconduct | 64 | 59 | 65 | 56 |
| Security breaches such as loss of confidential information | 62 | 60 | 60 | 60 |
| Environmental violations | 60 | 60 | 59 | 55 |
| Product recall based on health and safety issues | 60 | 47 | 64 | 58 |
| Regulatory non-compliance | 59 | 49 | 62 | 53 |
| Factory breakdowns or explosions resulting in injuries | 59 | 56 | 57 | 61 |
| Labor strikes or unrest | 40 | 31 | 42 | 39 |
| Ongoing protests by special interest groups or NGOs* | 38 | 29 | 41 | 34 |
| Risky supply chain partners | 38 | 30 | 40 | 33 |
| Support of unpopular public policy position | 38 | 31 | 39 | 34 |
| Public controversies over high CEO compensation | 36 | 29 | 36 | 40 |
| Online attacks or rumors | 25 | 16 | 28 | 27 |
| Top executive departures | 17 | 9 | 19 | 12 |

Source: Weber Shandwick Safeguarding Reputation survey conducted with KRC Research.

Note: Results for Brazilian executives are included in the totals but not individually reported (small sample).

* Non-governmental organizations

A PERILOUS PATH LIES AHEAD

Widespread executive wrongdoing, burgeoning Internet and technology use, environmental stumbles, product health and safety issues, and mounting regulatory standards are positioning some triggers as especially strong candidates for escalation in the years ahead:

► Executive Misconduct

Each day, print, television and online news sources broadcast the latest news and updates on the ethical failings and errors in judgment of senior business leaders. In response to this pattern of leadership misbehavior, an executive order was issued in July 2002 creating the Corporate Fraud Task Force, a new division of the U.S. Department of Justice. As of December 2005, the task force had obtained more than 1,000 corporate fraud convictions, and has convicted 92 corporate presidents, 82 chief executive officers, 40 chief financial officers, 14 chief operating officers, 98 vice presidents and 17 corporate counsel or attorneys. In Japan,

a country that serves as a model for crime control strategy, shock waves went through the business community when Internet portal Livedoor was accused of inflating results when it inaccurately recorded a profit rather than a loss.

Also, PricewaterhouseCoopers' 2005 Global Economic Crime Survey reported that 45 percent of companies worldwide have fallen victim to internal crime in the past two years. Significantly, the survey found that senior executives are responsible for 23 percent of all corporate fraud in large companies and 35 percent of fraud in smaller companies.

► Security Breaches

The growing sophistication of online pirates, absence of foolproof protection methods for confidential online data and the pervasive power of the Internet have all converged to create an environment ripe for reputational risk.

"While [contingency plans for crisis management] are important, it is a mistake to confuse them with a capability for managing reputational risk. Knowing first aid is not the same as protecting your health."

— Robert G. Eccles, Scott C. Newquist
and Roland Schatz,
Harvard Business Review (February 2007)

“It takes many good deeds to build a good reputation and only one bad one to lose it.”

— Benjamin Franklin

Today, a company’s ability to keep information secure has never been more challenging, while a person’s ability to access information and broadly communicate security breaches has never been stronger. For example, according to attrition.org/dataloss, which tracks lost and stolen data around the world, there have been more than 136 million global data breaches since 2000. Also, a survey by the Ponemon Institute reveals that one-third (34 percent) of customers would move their business to another bank after learning about a single security breach. Fujitsu, the world’s third-largest IT services provider, demonstrates the seriousness of this threat in an advertising campaign that boldly focuses on IT system security.

► **Environmental Violations**

Consumers and environmental rights groups are increasingly sensitive and alert to environmental violations, such as rainforest deforestation, oil spills, pesticide consumption, human rights abuses and pollution. The penalties for these violations can be severe — both in terms of monetary

finances and reputation loss. For example, the 2006 Alaskan BP oil-pipe corrosion invited further scrutiny of the oil giant’s earlier problems at Texas City Refinery, where 15 people lost their lives in an explosion. The disaster in Alaska “...led not only to the shutdown of much of Prudhoe Bay and the loss of hundreds of millions of dollars, but also to a PR disaster that, in a single blow, undid the green reputation CEO John Browne had meticulously crafted for BP over the past decade.” (*Fortune*, October 31, 2006).

► **Product Recalls**

Health and safety issues continue to plague a number of consumer and food product companies. From E.coli and salmonella contamination to defective technology components, recalls and their resulting negative reputation backlash are on the rise. In Europe, the number of reported recalls of dangerous and faulty consumer goods more than doubled in 2005, according to European Commission (EC) figures analyzed by PricewaterhouseCoopers. By the end of

December 2005, an average of two recalls per day were being posted on the EC Web site, with 706 reports filed (an overall 126 percent increase in reported recalls since figures were first compiled in 2004).

In the U.S., the 2006 spinach crisis (E.coli contamination) is a dramatic example of the dire consequences that a product recall can have on reputation. The outbreak, which most tragically caused three deaths and 104 hospitalizations, resulted in losses of nearly \$200 million. The company identified as the source of the outbreak saw a 70 percent drop in sales of its non-organic bagged salads, with the local spinach industry likely to lose a third of its \$180 million revenue. In addition, news of the contamination developed a life of its own, traveling from Boston to Bangalore in record time.

► **Regulatory Non-Compliance**

Companies around the globe are now required to adhere to new compliance legislation—the Sarbanes-Oxley Act of 2002 (SOX) in the United States, the New EU Transparency Directive for all EU Member states and J-SOX in Japan. This new business climate is making organizations of all types and sizes far more vulnerable to reputation risk. When reports of a company’s non-compliance find their way to customers, investors and other stakeholders, as well as to the media and the general public, they have far-reaching consequences for both corporate reputation and the bottom line.

“Competition...creates the need for leaders to develop a finely tuned moral ear—not out of altruism, but in the interest of their own survival.”

— Peter J. Firestein, president, Global Strategic Communications, Inc.

Regional Sensitivities to Reputation Damage

North America
Environmental Violations



Europe
Health and Safety Issues,
Product Recalls



Asia
Factory Breakdowns or
Explosions Resulting in Injuries



Source: Weber Shandwick Safeguarding Reputation survey conducted with KRC Research.

A WORLD OF DIFFERENCE IS REVEALED

Overall, European executives appear more sensitive to reputation threats than their North American and Asian executive peers (more frequently responding “always or usually” to factors that can significantly damage corporate reputation).

Regardless of region, executives consider financial wrongdoing and unethical behavior the most significant threats to reputation. Compared to their counterparts in other regions, however, North American executives are more sensitive to environmental issues, Europeans to health and safety product recalls and regulatory non-compliance, and Asians to factory breakdowns or explosions.

Reputation damage exacts a tremendous price from a company in terms of profitability, share price, employee attraction and retention, and competitive position. However, by being on guard against identifiable threats to reputation, and having safeguards in place to protect it, companies can continue to reap the full range of rewards that flow from a positive reputation.

“Because we thought it was our job to persuade, too often we forgot to listen.”

— Robert Shapiro, chairman
Monsanto
in a concessionary
statement to Greenpeace

Weber Shandwick's team of experts, linked across the industry's most expansive worldwide network, is uniquely positioned to provide the services and resources companies need to recognize and avoid imminent reputation threats. These services and resources include:

- ▶ Surveys and soft-soundings of key stakeholders
- ▶ Strategic media and blog analysis for early warning signs of reputational failure and business shifts
- ▶ Counsel in creating stronger dialogue with non-governmental organizations (NGOs) and civic groups
- ▶ Crisis preparedness and vulnerabilities audits
- ▶ Programs for improved internal checks and balances

For more information on corporate and CEO reputation management and Weber Shandwick's *Safeguarding Reputation* survey, please contact:

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