

SAFEGUARDING REPUTATION



The last decade has seen many of the world's most admired companies descend from their once lofty positions. They were in a class by themselves — corporate reputation royalty whose invincibility was universally accepted by business executives around the globe. No one could have predicted that these companies would ever part with their crowns. How the world has changed!

**NOW, EVEN FORMERLY UNTOUCHABLE COMPANIES
ARE AS SUSCEPTIBLE TO REPUTATION DAMAGE AS
THEIR COMPETITORS. ▶**

In *Safeguarding Reputation*[™], a wide-ranging 11-country survey on corporate reputation, global public relations firm Weber Shandwick, with KRC Research, asked 950 business executives worldwide what triggers reputation failure, how to best safeguard reputation and which strategies help restore a damaged reputation. “As companies increasingly stumble, they need to put safeguards in place to regain their footing and protect their reputations,” said Weber Shandwick’s Chief Reputation Strategist Dr. Leslie Gaines-Ross, architect of the new research.

REPUTATION IS A MAJOR CONTRIBUTOR TO MARKET VALUE

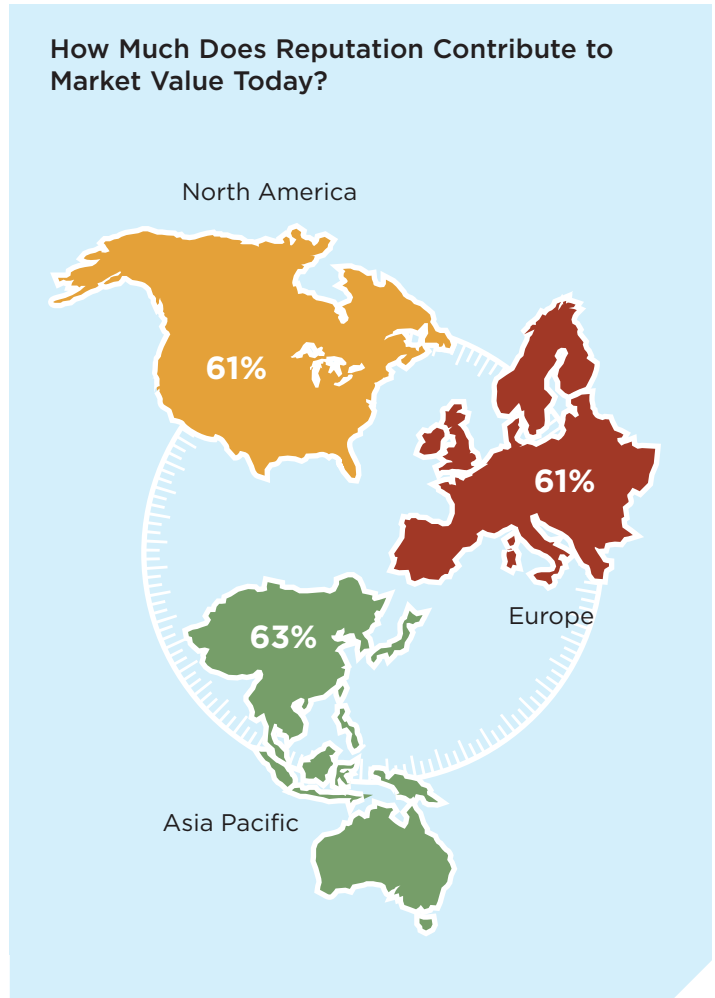
With each passing year, business success and sustainability become increasingly dependent on reputation. Media coverage of reputation alone has increased 108% over the past five years. As a topic of both conversation and debate, reputation now commands the attention of Web surfers and bloggers alike — nearly 187 million “reputation” mentions surface when searching Google and Technorati.

Reputation’s growing sweep across the media and online landscape has also reached global business influencers, who estimate that a significant 63 percent of a company’s market value is attributable to reputation. Executives in North America, Europe and Asia Pacific strongly agree with this high estimate. Because reputation is so widely recognized as a critical factor in how companies are valued today, the consequences of a damaged reputation run far and deep.

REPUTATION CRISES ON THE RISE

The convergence of globalization, instantaneous news and online citizen journalism magnifies any corporate wrongdoing or other misstep. Barely a day goes by without some company facing new assaults to its reputation. The disclosure of HP’s board investigation of leaks made headlines around the world, as did Japan’s Internet media company Livedoor when it reportedly violated Japanese Securities and Exchange Law.

Nearly nine out of 10 business executives surveyed agree that there has been a growing trend of corporate reputation damage, with Asia Pacific executives even more likely to report a rise in tarnished reputations. This finding complements a 2005 Economist Intelligence Unit (EIU) survey among global senior executives, where 84 percent reported that reputation risk had increased significantly over the past five years.



“In today’s world, where ideas are increasingly displacing the physical in the production of economic value, *competition for reputation becomes a significant driving force, propelling our economy forward.*”

– Alan Greenspan, former chairman, Federal Reserve

“History illustrates time and time again, that when the war is over the peace is more difficult to achieve.”

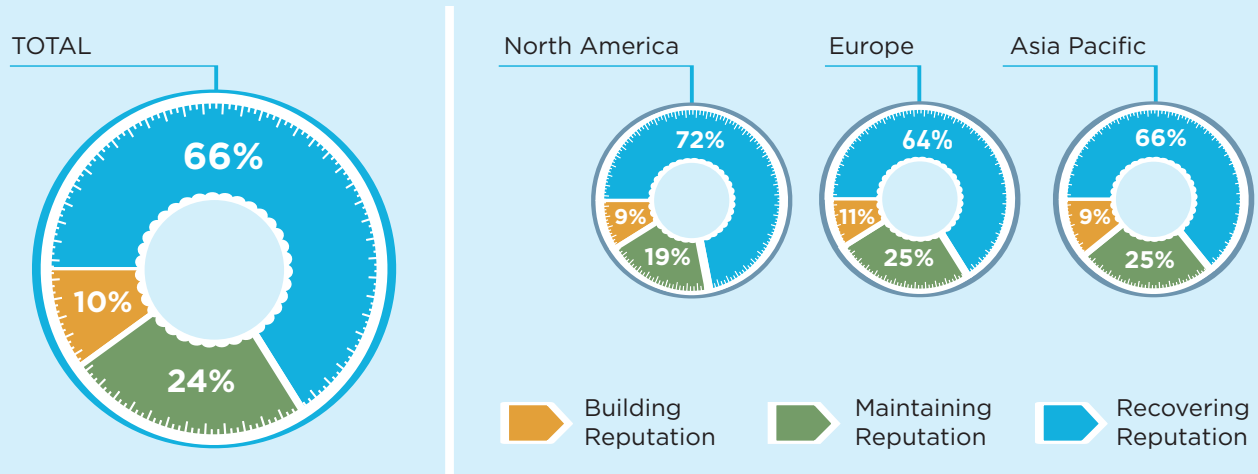
– Danish Leadership Institute

REPUTATION RECOVERY IS A HARD-WON BATTLE

Not only are reputation failures perceived to be escalating — a majority of global business

executives (66 percent) believe that it is harder to recover from reputation failure than it is to build and maintain reputation.

What Is the Most Challenging Stage of Reputation Management?



“If you lose dollars for the firm by bad decisions, I will be understanding. If you lose reputation for the firm, I will be ruthless.”

– Warren Buffett, CEO, Berkshire Hathaway

“It takes a lifetime to build a reputation, and only a short time to lose it all.”

– Joseph Neubauer, former CEO, Aramark Worldwide

TIME HEALS ALL WOUNDS

Recovering from reputation wounds is now an everyday occurrence. Over the past five years, we have seen several highly regarded companies struggle to successfully turn the corner on their recovery. The process is neither easy nor short-term. Reputation recovery takes approximately three and one-half years, according to global business executives

surveyed. This figure squares with former Chairman and CEO Lou Gerstner’s assessment of IBM’s reputation recovery that began in 1993: “By 1997, we’d declare the IBM turnaround complete.” What IBM and other experiences show is that when compared to a race, reputation recovery is often more like a marathon than a sprint.

Time Estimated to Fully Recover from a Damaged Reputation



ACTIONS SPEAK LOUDER THAN WORDS

To help guide companies as they repair a blemished reputation, global business executives were asked to rate the strategies that work best after a crisis strikes.

According to nearly three-quarters of global business leaders surveyed, the best steps to beginning the reputation recovery process are announcing specific actions the company will take to fix the problem, creating an early warning system, and establishing procedures and policies the company will follow to demonstrate its commitment to being a responsible citizen.

Examples of successful recovery strategies include:

► **Announce Actions to Fix the Problem**

Stakeholders expect companies to articulate solutions to crises. When Citigroup CEO Chuck Prince faced the termination of Citigroup's Japanese private-banking license in 2004, he announced he would temporarily close another banking unit in Tokyo to investigate trust-banking business violations. Vowing to clean up Citigroup's reputation, he fired three of the financial giant's highest-ranking executives connected to the scandal and launched a company-wide "shared responsibility" program.

► **Establish an Early Warning System**

With a rapidly changing media environment and shifting public opinion, leaders must be vigilant in identifying any emerging threats or opportunities that might hamper or accelerate recovery. When Merck's new CEO Dick Clark was asked what he would have done if he had been CEO before the company's reputation received a "black eye" over the recall of arthritis drug Vioxx, he gave a candid reply. He explained how the company should have focused more strongly on creating a system, or metrics, to detect early rumblings and alert the right people in time.

"Any assault on the reputation of a company is a crisis and reputations are built on how management responds to crises."

– Clarke Caywood, professor,
Northwestern University

► **Commit to Being a Responsible Citizen**

To navigate the storms that often brew from reputation crises, companies may pursue a course of *purposeful* reputation management, including a renewed commitment to sustainability practices. For example, University of Southern California Professors Ian Mitroff and Murat Alpaslan examined companies affected by September 11th and found that those guided by a higher sense of social responsibility generally survived in better shape. In another example, to combat rising alcohol misuse, premium drinks company Diageo devoted significant resources to its Responsible Drinking initiative. Weber Shandwick's International Head of Corporate Responsibility & Sustainability Brendan May adds: "Companies that act responsibly have a competitive advantage when reputations are under siege. They are given more time to right any wrongdoing."

Other frequently mentioned strategies for repairing post-crisis reputation— noted by more than seven out of 10 executives surveyed — are working closely with legal counsel on public disclosures, issuing regular public progress reports to address the problem, and quickly and publicly disclosing what happened. Many of these action steps help stem hyper-media

coverage and public distrust as stakeholders are assured that the company is being as transparent and proactive as possible under the circumstances.

Interestingly, reaching quarterly earnings goals is not a sure-fire way to mend a broken reputation. Reputation research has repeatedly shown that financial performance is necessary but is not the only factor in sustaining reputation. Stakeholders have become increasingly skeptical of business leaders and require many quarters of solid returns to win back credibility and trust in a company’s good name. They are

also looking for more attention to be paid to moral conduct: “But wise investors also consider character when they entrust money to corporations.” (*Barron’s*, October 2, 2006)

A regional comparison shows that in Europe, the second most helpful return-to-reputation strategy is quickly and publicly disclosing what happened, rather than establishing an early warning system, which ranks at the top in North America. For Asia Pacific executives, an early warning system is the number-one strategy for repairing reputation.

Steps to Help Companies Recover Reputation after Crisis Strikes

	TOTAL	North America	Europe	Asia Pacific
Announce specific actions company will take to fix the problem	76%	83%	73%	78%
Establish early warning system	76	83	69	82
Establish specific policies and goals demonstrating corporate responsibility	73	75	69	74
Make sure legal team approves all statements	72	74	68	76
Issue regular public progress reports addressing the problem	71	78	69	70
Disclose quickly and publicly what happened	71	73	72	70
Determine if problem is industry-wide or limited to the company before acting	67	60	68	62
Provide public apology from CEO or Chairman	59	57	57	64
Achieve quarterly earnings goals	57	50	59	47
Create senior position with specific responsibility for managing company reputation	47	45	50	42
Avoid any public communications until all facts are in	45	46	39	46
Respond to bloggers who have facts wrong	39	31	40	41
Restructure or eliminate board members	26	14	27	21
Keep the CEO out of the media	20	16	21	17

CEO APOLOGIES LOSING POTENCY

Though an apology is one way to put the issue behind an organization, global business executives view public CEO apologies as less effective than other strategies for stemming reputation loss. That said, there is strong evidence that the number of CEO and other public figure mea culpas has soared—from media celebrity Oprah Winfrey's apology for defending James Frey's book and former Harvard President Larry Summers' misgivings over comments he made about women in science and engineering, to United Airlines CEO Glenn Tilton's apology for poor on-time arrival rates in 2000. Leadership apologies are also a global phenomenon—an Airbus CEO apologized for production delays for its superjumbo jet as did Bridgestone/Firestone's CEO for faulty tires.

“CEO apologies are quickly losing their power to allay public concern now that they are almost expected when a crisis strikes or companies are accused of wrongdoing,” said Dr. Gaines-Ross. “Taking responsibility by apologizing is important, but more is expected from CEOs in crisis such as greater public outreach on what the company intends to do about the problem on an immediate and regular basis.”

RESPONDING TO BLOGGERS IS QUESTIONABLE

The majority of global business executives, regardless of region, agree that responding to bloggers post-crisis is not the most effective way to begin the recovery process. Less than four in 10 (39 percent) believe that engaging with bloggers who may have the facts wrong is a good idea in rebuilding lost reputation.

“Perhaps business decision-makers around the globe believe that companies should concentrate on fixing the problem and understanding what went wrong before turning their attention to correcting online conversations,” said

Dr. Gaines-Ross. “This is not surprising since our research also reveals that only a minority of companies pay attention to online coverage of their company's reputation. However, we should expect this low level of monitoring to change as companies begin to recognize the damage that can be done by negative word-of-mouth.” European and Asia Pacific executives are somewhat more supportive about responding to bloggers than their North American counterparts.

KEEPING CEOS INVISIBLE AFTER A CRISIS IS NOT ADVISABLE

Only one out of every five global business executives (20 percent) believe that keeping the CEO out of the media post-crisis helps mend reputation.

CEOs are the public face of organizations and in times of turmoil are expected to be visible and forthright about any problems that arise on their watch.

NEW RULES OF ENGAGEMENT

“Leaders need to better understand the rules of engagement as they increasingly find themselves in the spotlight for wrongdoing or mounting crises,” says Weber Shandwick President Andy Polansky.

“Interestingly, the survey reveals that despite vastly different business practices, cultures and work styles, leaders share a global perspective on reputation recovery following a crisis,” said Polansky. “Our groundbreaking research offers insights into how companies can safeguard and repair their reputations, identify the early warning signs of reputation failure, and take the right steps to reputation recovery.”

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

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