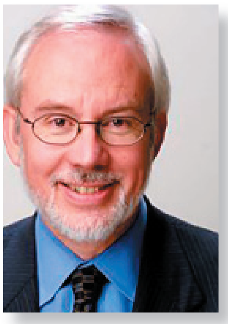
# Above the Awareness Threshold

## Corporate Reputation through Effective Risk Management



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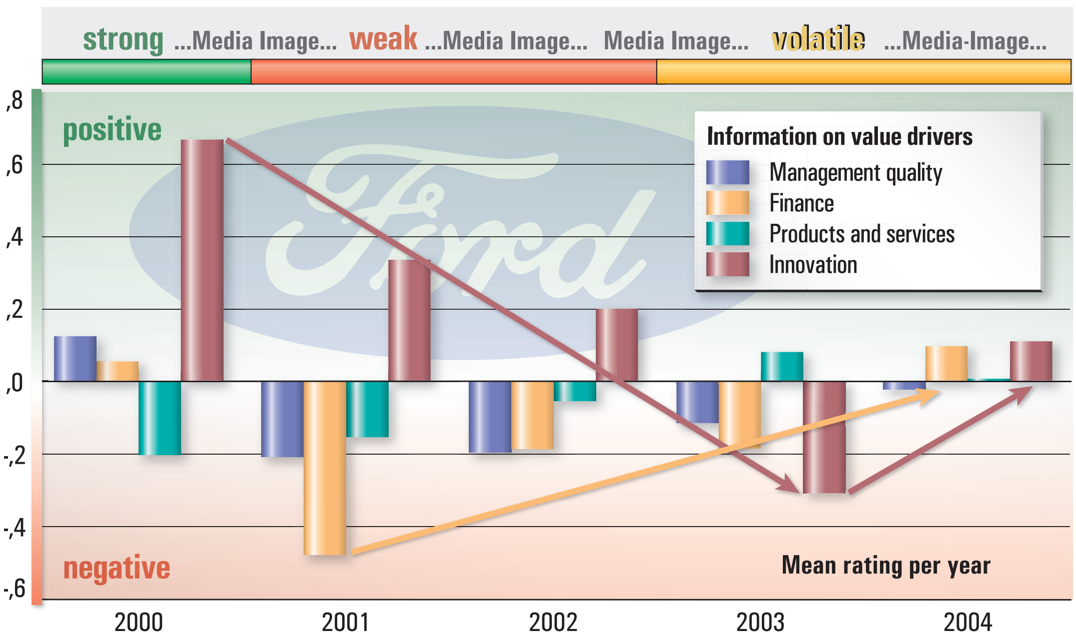
Bayer Pharmaceutical's experience with Lipobay and Merck's experience with Vioxx show just how quickly a single event can severely tarnish the reputation of a company that has been established over many years. What these and other companies have learned through bitter experience is that unless the company has a well-orchestrated program informing all of its stakeholders about its actions and intentions, it will leave itself at the mercy of the popular press. The consequence is that the corporate communications function, long regarded as something just to help put a positive "spin" on things, must now be seen as core to the company's success. Actions by the plaintiff's bar and aggressive regulators only make the stakes higher. Lawsuits and investigations can take a devastating toll on a company in terms of its reputation, its stock price and its profitability when large settlements are paid out.

As a result, managing a company's reputation and the risks to its reputation has now become a major concern of the board of directors. Since the board is responsible for acting as a fiduciary to represent shareholders' interests, it needs to concern itself with anything that will hurt a company's reputation and thus its value in the marketplace. Product recalls, earnings restatements, failure to comply with laws and regulations in all of the countries in which it operates, and slow responses to threats from new technologies and actions by competitors can all lead to a substantial reduction in shareholder value in a small period of time. This situation only becomes worse when a company's corporate reputation is only tenuously established in the public press, even it is a positive one.

### Risk and Reputation

One of the main themes of the 6th International Agenda Setting conference on October 26-28 in Lugano, Switzerland is to raise the awareness of participants about how important good risk management is to establishing and maintaining a good corporate reputation. Risk management must be approached from an enterprise-wide perspective, utilizing data from both inside and outside of the company. These data include quantitative analysis of a company's financial performance and how it compares to its competitors. Equally important are more qualitative data about how the company is being portrayed in the press. Without the right data and rigorous analysis of the data, it is impossible for a company to formulate an effective risk management program, starting at the board governance level and extending all the way down through the most minute issues in operational risk.

**Media Image of Ford: Selected Information on Value Drivers**




Source: Media Tenor
01/01/2000–10/31/2004

Basis: overall 26,767 reports on companies and managers of the automobile industry in 10 US media

Media relations thus becomes a central element in enterprise risk management. The key to success in managing media relations in support of a company's reputation is making sure that the company's media presence exceeds an "Awareness Threshold." Failure to do so means that media relations' efforts will have little affect and will put the company at risk to stories being created about it by others. Achieving the Awareness Threshold requires constant and diverse news about a company, and especially from company sources. This provides the foundation for establishing a strong and positive reputation which is the key to building public trust in the company. Of course, this is most effective when the news from the company is good and this depends upon strong performance and good risk management which supports this performance.

### Identifying and Managing Risk Factors

In determining the content for its media relations strategy, the company must identify those "risk factors" which affect performance and ensure that it has an effective enterprise risk management program in place. The company must then communicate what it perceives these risk factors to be and how it is managing them. These risk factors will vary by industry and individual company strategy.

It has long been recognized that media stories on issues critical to companies like financial performance, product quality, product pipeline, R&D, and human capital can be influenced by pro-actively setting targets regarding the achievement of a certain ratio of coverage in the opinion- leading media. Publications such as **The Wall Street Journal**, **Newsweek**, **The New York Times**, and **The Washington Pos**t are those that "set the tone," thereby defining the public's perception of a company which is hard to change once set. Therefore, it is essential to be aware of which media are reporting on which issues, including which risk factors each media outlet are focused on and which ones they are ignoring. The company must then strive to ensure a sufficient volume of coverage by these leading media outlets and with the best ratio of positive to negative stories as possible. The implication of this is obvious: managing media relations is itself an important risk factor for every company and failure to do so properly puts the company "at risk" of having its reputation defined by others than itself.

The classical stimulus-response-model which is implicit in most companies' media relations' strategies is not sufficient for measuring media effects. When predicting how many reports are necessary to realize behavioral change in consumers/shareholders/voters etc., an organization must not only take into account the volume of coverage of its own messaging but also the structure and diversity of this coverage. Managing a company's reputation in the public's eye as influenced by the media requires a balanced focus on a range of topics such as financial soundness, environmental policies and actions, quality of management, and strategic direction. Having a balanced focus is a good risk management practice since it lessens the risk that problems with any single risk factor will have a disproportionate influence on the overall reputation of the company.

Getting the message out does not guarantee that it is being heard and being heard by the relevant stakeholders. The volume and coverage of a company's competitors will also influence public perception, in both positive and negative ways. Another factor is how one publication picks up on stories published in another one. For example, a neutral or positive story in **The Wall Street Journal** on a company's quarterly earnings can be negated by a story in a more general publication that cites these figures in a negative light, for whatever sets of reasons. When this happens, the company is in danger of entering a "risk zone" where public perception can be fixed in an unflattering way.

Finally, an organization needs to engage in Agenda Surfing by leveraging trends in media coverage that are relevant to its own reputation. Identifying these trends, including perceptions about changes in risk factors and their relative importance, requires very granular data obtained through a daily and continuous analysis of all reports published in the opinion-leading media, both print and broadcast. By monitoring the media coverage on competitors and engaging in Agenda Surfing, the company can determine how much media coverage is required to break through the Awareness Threshold. Failure to do so will put the company's reputation at risk. Thus Agenda Surfing is a key part of risk management as well.

### Basis:

**Media:** 10 U.S. media (TV Networks, business media, dailies, weeklies)
**Time**: 01/01/2000 – 10/31/2004
**Analysis:** overall 26,767 reports on companies and managers of the automobile industry