3 Measuring corporate reputation

Dr Charles J. Fombrun and Dr Leonard Ponzi of Reputation Institute, provide insight in how to measure and value corporate reputation.

4 The challenges facing Swiss business

Johann N. Schneider-Ammann calls on business leaders to become more active to ensure the favourable reputation of Switzerland as a business location.

6 Reputation – a fragile asset

Dr Stephan Voswinkel points out that reputation is a fragile asset whose value is increasingly driven by the individuals that manage it.

THE COMMUNICATIONS JOURNAL

IRF Communications AG
www.irfcom.ch

13th issue November 2008
1,500 copies

REPUTATION IS NOT EQUAL TO IMAGE

Reputation management is about handling and reacting to the transmission of a targeted image. It comprises the process of tracking an entity's actions and corresponding opinions about those actions. In short, reputation deals with three things: what you do or don't do; what you stand for; and what you say, don't say or are perceived to have said.

In order to identify the position of a specific organisation on the reputation spectrum, there are aspects that serve as an indication, e.g. corporate governance, corporate social responsibility, organisation ethics/culture or society involvement. These are activities that you can plan. But there are other situations such as unpredictable business developments or crisis situations that you will not be able to control. These challenges ask for a smart and efficient reputation management. It deals with the root cause of a specific problem, offers solutions, sets processes in motion and monitors progress towards these goals.

In this journal, IRF Communications approaches "reputation management" from different angles and presents the scientific view as well as practical experience. On the one hand, the publication includes a contribution from Dr Charles J. Fombrun, Chairman and Founder, and Dr Leonard Ponzi, Managing Director of Research at New York-based Reputation Institute. The scientific view is rounded off by an article by Dr Stephan Voswinkel, Sociologist at the University of Frankfurt. On the other hand, the contributions include an interview with Dr Hans Geiger, Professor Emeritus of the Swiss Banking Institute at Zurich University, and an article by Johann N. Schneider-Ammann, Entrepreneur and Member of the Swiss National Parliament. Bernhard Bauhofer, author of a special-interest book on the topic, conveys examples of successfully applied reputation management in practice. Julia Phillips, Managing Director Life Science Team, FD International, explains why corporate reputation must be earned whereas corporate image can be created.

We learn from these articles that communications is an integrated part of efficient reputation management. Considering the perception of various involved target groups, a set of options for action and corresponding communication measures have to be defined. But what the articles also tell us between the lines is that besides accurate preparation and tactics building, appropriate understanding of a special situation combined with a fair dose of interpersonal skills and common sense is always pivotal for successfully mastering a reputation challenge.

Enjoy the reading!

Dr Michael Düringer, Partner
IRF Communications AG

Reputation management

UBS is not the glorious bank it used to be anymore. After mounting markdowns related to the subprime contagion and an increasing number of rich clients withdrawing their funds, UBS has come under increasing pressure. Hans Geiger talks about the bank's current challenges to reinstall its reputation.

Illustrations: Paolo Friz, Illux

UBS's primary task now is to defend its leadership position in wealth management.

Interview with Prof Dr Hans Geiger, Professor Emeritus of the Swiss Banking Institute, Zurich University

IRF Communications: How can it happen that a bank such as UBS, that was perceived as one of the most competent companies worldwide, needs another capital increase in the amount of CHF 6 billion and an additional loan of up to USD 54 billion from the Swiss National Bank (SNB) in order to de-risk its balance sheet after already having written down over CHF 40 billion in less than one year? Is this primarily due to company-specific or sector-related reasons?

Hans Geiger: The UBS crisis relates to both company- and sector-specific issues. First, I would like to point out that the domestic subprime mortgage crisis in the USA unexpectedly evolved into a financial bird flu which spread fast and had a global impact. Admittedly, we have seen overvalued property markets and corresponding state interventions before. But this time, an undervaluation of real risks in the subprime market ultimately resulted in cascades and ripple effects affecting the world economy. Many mortgage lenders passed the rights to the mortgage payments and related credit risk to third-party investors via mortgage-backed securities (MBSs) and collateralised debt obligations (CDOs). Corporate, individual and institutional investors holding MBSs or CDOs faced significant losses, as the value of the underlying mortgage assets collapsed.

UBS was affected by the credit crisis primarily as an investor due to its corporate strategy and weaknesses which may be associated with the integrated "one firm" business model. Furthermore, the group's corporate governance framework failed and the risk management system was totally inadequate to the group's exposure. UBS intended to play in the Champions League of investment banking with a second- or third-class team in the fixed-income division.

In such a situation, with all the shortcomings in the risk management, do you believe it is an adequate measure to dismiss the top managers, as it happened to Marcel Ospel? Wouldn't it be his task to correct his mistakes?

I believe Marcel Ospel did correct his mistake by collecting CHF 30 billion fresh capital. He did an especially good job

Please turn to page 2

Continued from page 1

acquiring CHF 13 billion from Singapore and Middle Eastern funds in a few days at the end of last year. Without this tension release on the equity side, UBS would not have survived the woes. With his excellent business contacts in the banking industry, Marcel Ospel exactly achieved what you can expect from a chairman in a crisis. Nevertheless, after having secured the temporary salvage of the company, it was time for new leadership.

Even though Peter Kurer's appointment as UBS Chairman was questioned in the beginning, he did an excellent job so far. He immediately started to correct previous mistakes. He removed "unnecessary layers of complexity" within the management structure, made adjustments to the executive governance and closed down the former Chairman Office. In August 2008, Peter Kurer demonstrated his willingness to listen to investors by separating the bank's wealth management and investment banking units, but not going as far as breaking up the universal bank business model established by his predecessor. And with the recent deal with SNB transferring up to USD 60 billion of currently illiquid securities and other assets from UBS's balance sheet to a separate fund entity, he materially de-risked the company's balance sheet and secured long-term funding. Finally, the new chairman increased the industry knowledge within the Board of Directors by proposing the election of Sally Bott, BP Plc's group Human Resources Director, Rainer-Marc Frey, Founder and Chairman of Horizon21, Bruno Gehrig, Chairman of Swiss Life, and William G. Parrett, former CEO of Deloitte Touche Tohmatsu.

As we know from other institutes in the USA, it is possible for big banks to collapse due to exposure to the credit crisis. Which further incidents could break the bank's neck and how critical is the lost trust in this context?

One thing is for sure, if it hadn't been for the capital increases, UBS would not exist in the present form anymore. With the new funds from SNB that reduce risk-weighted assets from the company's balance sheet, I believe UBS is back to the point from where it can digest additional markdowns with internally generated cash flows.

Regarding the lost trust I think that the bank's primary task is to return to sustainable profitability which – according to the bank's statements – will happen in 2009. In order to reach this goal, it will be mandatory for UBS to continue to invest in and develop its global wealth management business, the company's core asset, with the aim of strengthening both the group's presence in international markets and its leading position in Switzerland. Meanwhile, the investment bank will continue its repositioning towards client-driven activities, combined with a further reduction of its balance sheet and risk positions.

Facing the current situation, what type of strategies could reinstall the bank's image and regain lost customer accounts?

The behaviour is more important than the strategy of the bank. The utmost concern of each staff member worldwide should be what else can be done for the client in order to make her or him happy. UBS's behaviour in the past years, thinking its team is smarter than others', was inappropriate. Beside the concentration on the core business, there is a need for the development of targets and performance indicators consistent with the repositioning of the business divisions. In addition, the incentives systems for management and staff of the whole bank must be realigned with the interests of shareholders and clients. It is unacceptable that staff is personally rewarded for taking excessive risk for which the shareholder or in an extreme case the taxpayer has to pay the bill. Such a cultural change will support the resurgence of the bank's reputation in the public.

In the mid- and long term, what impact does the current US tax evasion case have on the UBS business, and in a wider context on the Swiss banking system and the Swiss banking secrecy respectively?

In response to an Internal Revenue Service (IRS) summons for customer information as part of the tax investigation, UBS agreed with the US authorities to stop servicing offshore accounts for American clients. From a market point of view, this decision is regrettable. In addition to delivering positive performance on clients' assets, it is a key task of each private bank to support its clients on tax optimisation issues. The bank should serve the customers with tax-efficient

Practical imperatives

Whereas the global business community is becoming increasingly concerned about reputation, executives still understand little about how to manage this important asset. The five practical imperatives below will help them correct this defect.

Bernhard Bauhofer, Founder & Managing Partner, Sparring Partners Ltd.

Witnessing a historic systemic crisis, bank managers are beginning to feel the economic effects of a reputational damage as well as loss of trust from all stakeholders caused by mismanagement and a limited focus on figures and shareholder value. The buzzword "reputation" even made it to the front page of the "Financial Times" this year where new UBS Chairman Peter Kurer announced that it will take up to three years to restore the badly tarnished reputation of the bank. Nevertheless, only few managers seem to have an understanding of how to manage this intangible asset. Still "reputation" is mistakenly used as a synonym for "image". While image – the facade of a company or person – can be bought and altered short-term, e.g. through a marketing or advertising campaign, a company's or person's reputation has to be earned and constituted over time through the fulfilment of promises as responses to individual expectations of stakeholders. This is a far more complex task. In our dynamic and short-lived times characterised by constant changes through mergers & acquisitions, reorganisation, repositioning, internationalisation, it's a daily challenge for managers to maintain the company's predictability. Moreover, a globally operating enterprise has become a highly diverse and complex biotope of people with different, often conflicting interests. A stakeholder value enterprise has to balance and respond to all interests in a holistic and systematic reputation management approach. In this system all so-called reputation drivers such as "innovation", "corporate governance", "corporate social responsibility" and "communication" have to be managed holistically within the company's stakeholder relationship network. As a "chief reputation officer" the CEO should take the following imperatives to heart:

Take the long-term view

The shareholder value paradigm has proved deadly to many formerly highly respected companies. Driven by sheer greed, a company tends to neglect interests of other stakeholders. To break the vicious cycle, a CEO has to win the supervisory board's support to set up a long-term strategy and implement it. A "win-win relationship" is a banal and often used phrase. But today a widely connected enterprise has to make sure that its stakeholders are adequately rewarded for their contribution to the company's value creation. This includes also the more critical stakeholders such as non-government organisations or activists. The longer these relationships work smoothly, the more the company becomes prepared to weather potential crises.

Redefine your communication policy

Prototypically CEOs of shareholder value enterprises love to communicate successes but tend to duck when things are not going that great. Come rain or come shine – today's well-informed stakeholders request a highly transparent communication policy without exception. Today's communication imperative is: provide the specific stakeholder with the right information at the right time with the right medium. Communication is a "primus inter pares" reputation driver as it includes all stakeholders in the evolution of the company.

Make reputation management a multidisciplinary task

A company's reputation is too important to be delegated to or shouldered by just one person. Considering the facts that all parts of the company are constantly affecting the reputation and reputation crises may emerge from anywhere along the value chain, a reputation management programme has to involve senior executives from all strategic departments, i.e. Supply Chain Management, Research & Development, Human Resources, Finance & Controlling, Marketing & Customer Relationship. This task force headed by the CEO has to foresee potential issues and crises and prepare precautionary measures and strategies to prevent them.

Build your culture on meritocracy and respect

A CEO should also be a role model when it comes to remuneration. Don't expect your people to tighten their belts and work even harder for the same or even less money while you are demanding a double-digit pay raise every year. For globally operating companies, diversity, respect and fostering of diverse ethnic groups, cultures and generations are a "conditio sine qua non" for attracting and retaining the best talents. According to most recent employee satisfaction surveys "respect" is what people desire most. Unlike in the former hierarchical business model, today there is no binding codex as for whom to respect and how to express it. In 21st century's business environment, a different set of respect strategies are required to cope with expectations of men, women, elder employees and members of the so-called Generation Y, the highly unpredictable twenty-somethings who have never experienced a time without mobile phone and Internet.

Doing good while making profits

A CEO should understand corporate social responsibility (CSR) as an integral part of the company's core business. Other than philanthropy, CSR is a strategic decision strictly based on business parameters and not individual benevolence. Rather than donating money, e.g. to a charity organisation, a stakeholder value company should be concerned about how to enhance its contribution to society and environment while raising its profitability and its value as a corporate citizen. Novo Nordisk, the Danish pharmaceutical company, is a role model for a company which operates profitably and sustainably. Within its "triple bottom line" approach, the company is equally concerned about its economic, social and environmental performance.

investment strategies and instruments, as long as they are legal. Forcing a weak bank, such as UBS at current, to neglect 2,000 American clients holding up to CHF 18 billion due to a potential tax evasion risk, is a contradiction to a liberal society and a free market system. Also with regards to the Swiss banking secrecy, I do not think it is in peril. It incorporates the right to privacy which Switzerland holds dear.

TIMELINE OF A FINANCIAL CRISIS

2006
Prices are flat, home sales fall, resulting in inventory build-up.

2007
H1: *Home sales continue to fall, the steepest fall since 1989. Several large US subprime lenders file for chapter 11 bankruptcy or put themselves up for sale. Shortly afterwards, New Century Financial, the largest US subprime lender, files for chapter 11 bankruptcy.*

H2: *A worldwide credit crunch occurs as banks worldwide are discovered to have subprime mortgage-backed securities in their portfolios. Liquidity is injected into the markets. Several mortgage lenders go out of business. Several banks – amongst them UBS – announce losses and significant write-offs of assets related to the subprime crisis.*

2008
January: *Financial crisis escalates with collapse of major lenders and investors. The Fed lowers federal funds rates significantly.*

February: *British bank Northern Rock nationalised by the government.*

March: *Bear Stearns acquired by JPMorgan Chase in a fire sale avoiding bankruptcy.*

May: *UBS announces plans to cut 5,500 jobs by mid 2009.*

September: *Federal takeover of Fannie Mae and Freddie Mac. Lehman Brothers collapses and files for bankruptcy, Merrill Lynch is sold to Bank of America amidst fear of a liquidity crisis while AIG receives a loan of USD 85 billion from the US Federal Reserve to avoid bankruptcy. Lloyd TSB acquires HBOS. JPMorgan Chase buys activities of Washington Mutual, UK bank Bradford and Bingley is nationalised, so is Fortis. Stock markets plunge worldwide, financial rescue plan of the US government worth USD 700 billion is unveiled. Wells Fargo acquires banking operations of Wachovia.*

October: *US Senate and House of Representatives pass new versions of the USD 700 billion bailout bill. Leading economies slash interest rates to tackle global financial crisis after days of stock market losses. Several governments give out guarantees for savings and implement further actions to support their financial sector. In various countries banks are nationalised. Despite these government actions, markets remain extremely volatile.*

Measuring corporate reputation

Corporate reputation is a valuable intangible assets. It is valuable because it influences the decisions of consumers about which products and services they will buy. Unfortunately, it is also intangible – and so difficult to measure.

A variety of measurement tools have been created over the years to quantify the value of reputation.

Dr Charles J. Fombrun & Dr Leonard Ponzi, Reputation Institute, New York

Corporate reputation also influence the decisions of creditors and investors about which companies they will lend money to (and at what price), and the decisions of job seekers about which companies they want to work for. They are assets because they influence the profitability of companies and are unique and inimitable.

A variety of measurement tools have been created over the years to quantify the value of reputation. Most have been found wanting in one way or another. The most familiar is probably "Fortune's" popular study of the "world's most admired companies", released annually by the magazine since 1982. The measure is based on ratings of companies obtained from invited managers and analysts. It therefore reflects the opinions of industry insiders. The measure of corporate reputation is calculated from responses to eight questions ranging from investment value to social responsibility.

Although pioneering and useful, "Fortune's" rating (conducted by Hay Associates for the past ten years) has been criticised for lacking in methodological rigor and sampling bias. Its principal benefit has been to call attention to the hidden value embedded in perceptions of companies.

Reputation Institute has been measuring corporate reputation rigorously since 1999. Its approach is based on:

- Carefully developed model of reputation based on seven dimensions that have been tested internationally
- Rigorous process of sampling that ensures representativeness of the results
- Careful process of analysis that standardises results and enables international and cross-industry comparisons.

In 2006, Reputation Institute introduced the Global Pulse – a simplified and standardised scorecard for measuring corporate reputation internationally (see figure 1). The beating heart of the model is the Pulse score – the degree to which people trust, admire, respect, and have a good feeling for a company. Scores are based on answers to four questions and are standardised on a scale of 0–100.

The Institute's analytical work group further examines whether the Pulse score is based on perceptions of companies in seven underlying dimensions identified in the Global Pulse model: Products/Services, Innovation, Workplace, Governance, Citizenship, Leadership, and Performance. Understanding these underlying perceptions provides the raw material from which companies can create strategic platforms for communicating with their stakeholders on the most relevant key performance indicators.
Reputation Institute has conducted the study annually since 2006 to develop a robust database of reputation ratings for the world's largest companies in their home markets. Over 60,000 members of the general public from 27 countries participate in the study and provide their perceptions of the world's largest companies.

Figure 2 shows the top 25 companies the public most respected in 2008. A complete listing of the top 200 best-regarded companies was released on Forbes.com in June 2008 and is also available directly from Reputation Institute (see reputationinstitute.com).

In 2008, Toyota Motors took the top spot, followed closely by Google, IKEA,

Please turn to page 4

ABOUT REPUTATION INSTITUTE

Reputation Institute is a private advisory and research firm specialised in corporate reputation management. With offices and associates in more than 20 countries, Reputation Institute provides knowledge-based consulting services to some of the most respected companies worldwide. Reputation Institute also identifies best practices from original research, and shares its cutting-edge findings with clients and members through engagements, seminars, conferences, and publications.

Dr Charles J. Fombrun is Chairman and Founder of Reputation Institute. Dr Leonard Ponzi is Reputation Institute's Managing Director of Research.

The challenges facing Swiss business

Johann N. Schneider-Ammann calls on Swiss business leaders to become more active in the political process to ensure the future prosperity of Swiss companies. The economy is an integral part of society – private enterprise needs to stand up for its interests if it does not want to find itself at a disadvantage.

By Johann N. Schneider-Ammann, President and Board Delegate of Ammann Group, President of Swissmem, Member of National Parliament

Today more than ever, the potential rewards and opportunities of Swiss companies on the international stage are determined by the interplay between politics and private enterprise. As national economies became increasingly globalised, so too did corporate boards. There are hardly any major corporations in Switzerland whose board members are still predominately Swiss. Not only has the image of corporate Switzerland suffered in the eyes of much of the population, Swiss business is under-represented in political and policy-making processes. Such developments jeopardise Switzerland's future as a business location. Action must be taken to counteract them.

In bygone days, business and politics were a successful duo that guaranteed Switzerland's economic prosperity and earned the country accolades as a "special case". Today, however, leading Swiss business figures and politicians find themselves confronted with an alarming loss of confidence among the general population. A weakening economy, political tension on the world stage and political infighting in Switzerland act as impediments to the dynamic renewal and development of the economy, politics and society. Incidents of corporate irresponsibility and the selfish pursuit of personal gain have become more common. Managers are taking a quarterly instead of a long-term approach to corporate growth. Mismanagement, corruption, cover-ups, tax evasion, excessive executive pay, golden parachutes, and other developments like the actual turmoil and crisis in the financial markets threatening social harmony and prosperity, have contributed to the public's negative perception.

Business turned its back on politics and society

Business leaders turned their backs on Switzerland in the 1990s. Once strong proponents of the special Swiss system of concordance, business leaders changed course and instead focused their attention on the international stage and the development of new markets. At the same time, they spurned the so-called militia system, the long-standing Swiss tradition of service to the community. No wonder today's business leaders are held in such low standing and the general public has little faith in their role as good citizens.

This verdict is substantiated by statistical data. Today there are only two directors of SMI companies who are also members of the national parliament. In 1937, Executive Committee members of the Swiss Bankers Association also served on the boards of directors of 32 of the 100 largest companies in Switzerland. In the year 2000, this number had dropped to only 8. The corresponding figure at economiesuisse declined from 21 in 1937 to 10 in 2000. This is clear evidence of the weakening bonds between traditional business associations and large corporations.

Disinterest comes at a price

Politicians cannot, of course, devote all of their time and attention to business issues; many other issues such as social equity, national self-sufficiency, preservation of natural resources, homeland security, education and health care must also be addressed. Using that as an excuse to stay out of the political arena can have dire repercussions, however, mainly because many other policy areas have an at least indirect bearing on business.

Swiss entrepreneurs, business owners and even members of senior and middle management with a strong sense of commitment to their companies and employees, and to long-term economic prosperity, must have a voice in the political process. If their voice is not heard, there is a risk that policy makers will fail to acknowledge the business world's essential needs while bolstering the trend towards the welfare state. Signs of resignation and fatigue in the struggle to stem the tide of social welfare largess are already evident, even deep within conservative ranks. This can be traced not least to the fact that most entrepreneurs and business leaders are no longer active in cantonal and national politics and, therefore, no longer help to shape public policy.

In order to give business issues a more prominent position in policy-making circles, business leaders must be more assertive in voicing their political interests. Instead of merely fighting systemically detrimental proposals, business representatives and entrepreneurs should focus on timely proposing their own solutions for political debate. Tax policy is one area where the failure of the corporate world to resist counterproductive developments is glaringly evident. In 1965, tax revenues were equivalent to 20.7% of Swiss GDP. By 2004, this percentage had already risen to 36%, an increase of more than 80%. As the tax burden and the government share of GDP grow, the advantages Switzerland offers as a business location shrink.

Swiss companies are also suffering under a relentless flood of regulations. The never-ending flow of new laws, ordinances and regulations, up to 3,000 pages in all every year, restricts entrepreneurial freedom. It takes a heavy toll on entrepreneurial dynamism, flexibility and adaptability. Already high administrative costs are driven even higher and impose a particularly heavy burden on small and mid-sized enterprises. Then there are the psychological consequences: The constant battle against excessive rules and regulations is demotivating and ultimately undermines entrepreneurial spirit.

Participation means co-determination

Today's financial, fiscal, social and national security policies stem from the political

Continued from page 3

Ferrero, and Johnson & Johnson. Other highlights include:

- Toyota was the only car company in the top tier of reputation leaders, followed by Volvo Bilar in the 30th spot.
- Two US companies, Google and Johnson & Johnson, notched top 5 rankings.
- Food-related companies dominated the world's top 10.
- Consumer and tech product companies enjoy the best reputation followed by pharmaceutical companies, conglomerates, raw material manufacturers and airlines.
- The largest gains in reputation from the previous years' study were in the information/media and computer sectors, where companies like Infosys Technologies (India), Sharp Corporation (Japan) and Xerox (USA) rose in the rankings between 2007 and 2008.
- Cracking the global top 10 this year were Denmark's diabetes drug specialist Novo Nordisk, Mexico's food retailer Grupo Bimbo, and Switzerland's food retailer Migros.
- Making a big jump in rankings this year were China's Faw Group Corp, Norway's Coop, Canada's Sobey's, and Japan's AEON.

Reputation Institute also conducted statistical analysis of the Global Pulse 2008 ratings to examine the principal factors that distinguish companies with high and low reputation. The results show that consumers are most influenced to rate favourably a company that delivers high-quality products & services – the dimension accounts for nearly 18% of a company's reputation. The dimensions of Governance and Citizenship, however, together account for more than 30% of the variation in Pulse ratings. These results suggest the importance for companies worldwide to communicate about their support for good causes, their efforts to protect the environment, to behave ethically, and to act openly and transparently about the way they do business. Toyota, the most highly rated company in the Global Pulse, also took the top spot for Governance, Products/Services, Leadership, and Performance. IKEA was top on both the Citizenship and Innovation dimensions. Google led on the Workplace dimension.

Clearly reputation is a valuable intangible asset that companies must manage carefully. Measuring and tracking are crucial components of that process. Reputation Institute's Global Pulse is conducted annually and can be used by all companies interested in understanding their relative standing against the world's best- and worst-regarded companies.

The 2009 results of Reputation Institute's Global Pulse will be discussed at the 13th International Conference on Corporate Reputation, Brand, Identity and Competitiveness, held in Amsterdam, The Netherlands 28 - 30 May 2009.

MEASURING REPUTATION

Reputation Institute's Global Pulse Model

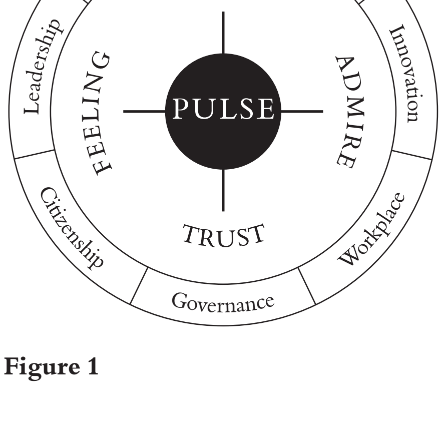


Figure 1

BEST CORPORATE REPUTATION 2008

Rank	*Company*	*Global Pulse*
1.	*Toyota Motor Corp. (Japan)*	86.53
2.	*Google (USA)*	85.23
3.	*IKEA (Sweden)*	84.14
4.	*Ferrero (Italy)*	83.52
5.	*Johnson & Johnson (USA)*	83.48
6.	*Tata Group (India)*	82.84
7.	*Kraft Foods Inc. (USA)*	82.79
8.	*Novo Nordisk (Denmark)*	82.28
9.	*Grupo Bimbo, S.A. (Mexico)*	81.75
10.	*Migros (Switzerland)*	81.54
11.	*General Mills (USA)*	81.34
12.	*Walt Disney (USA)*	81.22
13.	*Haier Corporation (China)*	81.19
14.	*Infosys Technologies (India)*	81.18
15.	*United Parcel Service (USA)*	81.05
16.	*Sharp Corp. (Japan)*	80.44
17.	*Coop (Norway)*	80.43
18.	*Jean Cotou Group (Canada)*	80.11
19.	*El Corte Inglés (Spain)*	80.00
20.	*Petrobras (Brazil)*	79.97
21.	*Carlsberg (Denmark)*	79.82
22.	*3M (USA)*	79.79
23.	*Barilla (Italy)*	79.44
24.	*Grupo Gerdau (Brazil)*	79.26
25.	*Robert Bosch (Germany)*	79.22

Figure 2

interaction between elected members of the executive and legislative branches of government. Unemployment, the EU, government finances, health care and education, burgeoning government debt, demographic problems, lower growth rates, environmental problems, globalisation, changing social values, information society, industrial revolutions and new technologies are the challenges Switzerland must overcome amid all the upheaval and renewal.

Business leaders who are interested in only business and global opportunities are showing a disregard for the domestic political process and putting themselves at risk of being disregarded themselves. Corporate Switzerland is an important part of Swiss society. It can and must exert a strong influence on policy-making processes. This goes beyond making a donation to political parties and candidates at election time. Rather, Switzerland's business people must stand up for their values and demonstrate their deep commitment to fellow workers, stakeholders and the environment in their day-to-day actions and decisions. Business leaders have social and socio-political responsibilities. They must take precedence over short-term personal or corporate gain in order to promote the constructive, sustained development of our country as a business location.

A sound economy is a guaranty of prosperity and social harmony and the foundation of a high quality of life, a healthy environment and job security. It also ensures the financing of our country's education, health care and social welfare systems, all of which still get high marks in an international comparison. These are critical factors for Switzerland's continued prosperity as a business location.

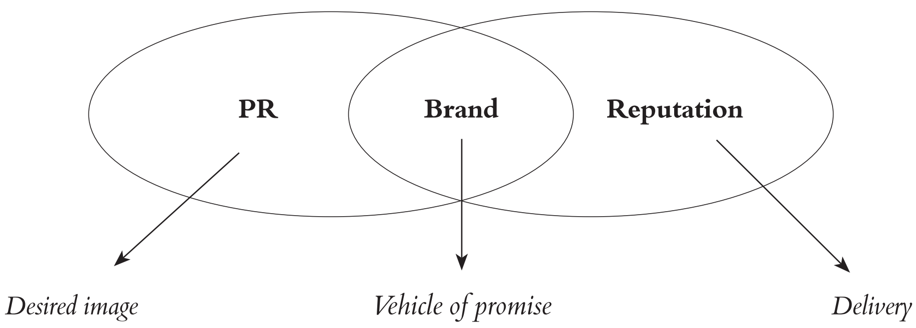
BULWARKS OF SWISS REPUTATION

- *Political stability*
- *Federalism*
- *Multicultural, international and open*
- *Sound and predictable legal system*
- *Strong manufacturing, technology/R&D and financial centre*
- *Intact environment and nature*
- *Improving and expanding the strengths of its education system, i.e. maintaining an international competitive edge with a regard to knowledge and research from vocational-level programmes up to the university level*
- *Maintaining and sustaining the concept of social partnership and harmony*
- *Expanding social programmes only to the extent financially feasible*
- *No thicket of rules and regulations constraining business enterprise*
- *Reasonable, internationally competitive financial and tax policies*
- *Maintaining the militia system at all levels*
- *Maintaining the basic principles of neutrality and our foreign and economic policy*
- *Maintaining Switzerland's humanitarian tradition*
- *Maintaining the presence of international organisations in Switzerland*

The particular case of Life Science

Reputation is what other people think of us. Reputation management involves understanding an organisation's reputation and taking actions that have a positive impact on that reputation. This is largely built on how a company communicates over time and is therefore an intrinsic element of public relations.

PR AND REPUTATION



Julia Phillips, Managing Director Life Science Team, FD International, London

How much is your company's reputation worth? Can you measure and manage your reputation? How much of your organisation is made up of intangible assets? Arguably, the largest part of many life science companies.

Corporate image can be created but corporate reputation must be earned. The whole organisation needs to be part of this and it therefore involves all employees. Building a positive, sustainable reputation requires a holistic and integrated approach to all communications. Public relations alone cannot create it – of course there has to be substance based on real achievement through which PR can add context and communicate. The job of the PR practitioner, whether in-house or as consultant, is, more than ever, about managing reputations which takes us beyond the traditional role of managing communications around announcements.

Within the life science sector, corporate reputation is critical to building sustainability. The risk of a poor reputation is so much greater in an industry offering life-saving products. The credibility of management is everything. For example, we know that when investors consider participating in the IPO's of biotechnology companies, they place their belief in management teams at the top of their list of criteria. In a worst-case scenario, post IPO, of a technology or lead product failing, can this management team recover and, if necessary, reinvent the company?

In a study carried out in 2005 by Kevin Murray and Dr Jon White, Fellows of the CIPR, 28 chairmen and chief executives described the world in which they operated their businesses as increasingly complex due to the:

- Speed of communication on a global scale
- Huge increase in channels of communications, particularly digital
- Shifting patterns of influence and the increase in consumer websites and blogging
- Elevated expectations of stakeholders and the increase in the consumer's "share of voice"
- Greater regulation and the consequent communications requirements
- Aggressive pursuit of information by journalists and the "tabloidisation" of business reporting
- Declining levels of trust

Building a positive reputation undoubtedly requires companies to deliver excellence in their performance and the highest standards of communications. Engaging all employees through best practice, internal communications is a key component and yet often not enough attention is paid to this. Many smaller life science companies operate from multiple sites, sometimes even from more than one country, yet have limited management resources to put time into this activity with investors and pharma partners being the main priorities for communications. Yet staff are always the valuable asset and themselves have expectations of management that need to be managed.

ELEMENTS OF CORPORATE REPUTATION

- *Vision and leadership by CEO*
- *CEO's reputation*
- *Innovation*
- *Understanding the market*
- *Core competencies*
- *Investor and public relations*
- *Intelligence gathering*
- *Media profile*
- *Ability to reinvent*
- *Networks and alliances*
- *Community relations*

They are a channel to the outside world, communicating their views of their employer either directly or indirectly to family and friends (potential investors) and corporate partners and collaborators with whom they may have regular contact.

Does PR deliver reputation? Yes, in that it has a major role in the clarity of message, challenging management and providing feedback from the markets and giving input to internal communications programmes.

Many of the world's largest companies are brand driven, such as Vodafone or Guinness. Within the life science sector however, companies are almost always driven by management reputation. It's simply not enough for a company to think that its reputation will be considered excellent because its science is groundbreaking. In fact, this has sometimes worked against companies in the past where arrogance and a dismissal of proactive communications have resulted in investor frustration and disinterest when any clear lack of commercial vision and progress became apparent.

It is interesting to note that the only life science companies to appear in the top 50 of Forbes' worldwide most respected companies are at number 13 (Johnson & Johnson) and 24 (Novo Nordisk). Clearly some work needs to be done in this sector which all of us must subscribe to!

PLAN FOR REPUTATION MANAGEMENT

Building a plan for reputation management involves the same components as a structured PR programme:

CEO leadership + senior management commitment
↓
Undertake communication audit to understand current reputation
↓
Frame corporate communications structure
↓
Design and implement programme and resources
↓
Maintain and evaluate

POSITIVE ASPECTS OF REPUTATION

- *Better employee relations/output/retention through better internal communications*
- *Better understanding of issues*
- *Preparedness for crisis situations*
- *Alignment of strategy with key stakeholders' expectations*
- *Sustainable value creation*
- *Positive influence on regulators*
- *Greater ability to raise money*

Reputation – a fragile asset

Not everything is under control when managing reputation.

Reputation is a valuable asset and needs to be tended to carefully. Investing in reputation usually pays off. In the Age of the Internet, media reporting has shown an increasing propensity toward personification and, as a result, individual leadership figures play a greater role in building and maintaining a solid reputation.

Dr habil. Stephan Voswinkel, Sociologist at the Institute for Social Research, University Frankfurt a.M.

A good reputation increases one's influence, makes it easier to mobilise support and, ultimately, facilitates the achievement of one's goals. It follows that building and maintaining a reputation is a matter of strategic importance.

The roles actors play are not freely chosen

Individual players have only limited influence over their reputation. It is the product of a communication process in which numerous other actors are involved. Quite often these actors are interested not only in building up their own reputation but also in tarnishing the reputation of others. It is also important to view the reputation of individual players within this constellation of actors, all of whom possess their own particular images and reputations. Individual actors will play certain roles within this setting, like the characters of a play. In any constellation, individual actors are assigned different roles that make sense only when viewed in relation with the others. If one actor assumes the role of initiator, another actor will almost have no choice but to assume the role of devil's advocate. Taking the initiative will not only force another actor into the role of naysayer, but also compel another actor to assume the role of moderator. And once the initiator sees that such a role has been assumed, he can pursue his own role as initiator with all the more abandon. Difficulties can be expected, however, if more than one actor vies to play the role of moderator. This is further proof that individual actors do not have free rein in deciding which character to play and which image they would like to project in a particular setting.

Stage management regarded with latent scepticism

Building and shaping a reputation also means being exposed to the mistrust of others. We all agree that projected images are not always authentic. They will also reflect how people or organisations cast and present themselves on their particular stage, in their particular setting, as well as their particular position within an ensemble of actors. Latent doubts will always arise as to the legitimacy of one's claim to a particular reputation. To a certain extent reputation can be described as a kind of credit that is given by others. This credit is extended on good faith until discredited. Proof of entitlement will be sought by those giving such credit and it must be provided from time to time by those seeking such credit.

Challenges and tests

Reputations will be tested to determine just how well they correspond with actual reality. People want assurance that the credit given is indeed warranted. Such tests can be conducted by external parties as well as by an actor itself if, for example, it is uncertain regarding its own abilities and needs or is seeking to confirm its own standing or change its reputation. Reputation tests can occur in a situational context, in the form of provocation, for instance. They can force the parties being tested to reveal their "true self" without much time for deliberation or stage management, under pressure both time-wise and mentally. To some extent, one can say that in such situations a mask is torn from their face. There are also socially institutionalised reputation tests, which serve as important moments in identity development and in the pursuit of opportunities and status. These include many different kinds of tests – from school-leaving exams to university graduation exams, from rituals of manhood to consumer product tests, from personality tests to intelligence tests. The job application process is also a kind of reputation test, especially when assessment centres and other institutions are involved. They all serve to substantiate the claims being made.

Other institutionalised tests have been conceived to underscore the credibility of reputations, for example certificates and diplomas in the field of education, ISO certifications, seals of quality and so on. Membership in a professional or industry association that holds its members, be they physicians or temporary employment agencies, to certain standards or codes of conduct, are further examples of such institutionalised tests.

Media as intermediaries

Reputation is the result of a complex communication process over which one has only limited control. Communications intermediaries in general and the mass media in particular play an especially important role in this process. An invariable feature of social structures and relations with respect to internal communications is the role played by intermediaries. These are actors who occupy a prominent position in the flow of communication and who have a considerable impact on how reality is perceived – in both a positive and negative sense: confidence-building intermediaries that strive to build trust between the various actors on the one hand and intermediaries intent on harming the reputation of others by spreading rumours and derogations on the other.

Mass media is a key communication tool of modern society. It determines what is generally perceived as social reality. The more complex and differentiable a society is, the more important the role of the mass media will be. Mass media provides certain images and interpretations of things that people cannot know and test based on personal experience. Remote events and developments in a spatial and social context do not take place for people unless conveyed to them through the media. Furthermore, the reality projected by mass media is certainly filtered by the general public as it juxtaposes these projections against its own beliefs and experiences.

Internet revolutionises the effective reach of individual and local actors

We are witnessing a fundamental transformation or enlargement of the media system. The Internet has taken its place as a mainstream medium alongside television. Internet blogs and platforms such as YouTube have become media channels for the personal/private sphere, too, yet with a spatial and social reach that rivals that of television. The Internet allows individual and local actors to become part of a broader media system as it undergoes revolutionary change. In the wake of the growing personification of the topics covered by the media, public perception of individual reputations is becoming a much more important factor. Therefore, the personal conduct of corporate executives or board members is now subject to greater scrutiny than ever before. Incompetent management or even personal misconduct can have an adverse impact on a company's reputation.

One has very little control over the complex interrelations between all the actors and media having an impact on reputation. In addition, individuals are increasingly interacting with other actors they are not personally acquainted with. This makes reputation, being a product of complex communications processes, an all the more valuable yet fragile asset.

Trial and error: a few examples

With faster and more transparent possibilities for media to spread stories all around the world, reputation management of companies, managers, politicians and other public figures has become an important daily and long-term discipline. The following mainly Swiss case stories show how companies and politicians have dealt with different situations where reputation was at stake.

Yasemin Diethelm-Ersan, Senior Consultant, IRF Communications AG

Novartis: Golden parachutes, 2007

When Daniel Vasella took over the position of Chairman of the Board of Novartis in 1999, he already had been serving as Chief Executive Officer for three years. His new ten-year contract included a severance package which entitled him to receive payments of three times his annual salary and in case of a change of control five times his annual salary. The same severance payments were arranged for four additional Novartis senior executives.

Given the fact that Daniel Vasella's salary has multiplied fortyfold within the past ten years and that Novartis' share price development has not reflected the salary's development, Vasella's remuneration has been perceived as excessive by the public – even without these golden parachutes. Too much power combined in one person within the company, too much compensation compared to admittedly a remarkable but not overwhelming success was the perception.

In 2007, shareholders unsatisfied with this situation started to organise themselves and put pressure on the company and on Vasella's person. The media also highlighted the size of Vasella's pay package with a series of articles questioning rising executive compensation at Novartis and other big companies.

As a reaction to this pressure, Daniel Vasella announced at the 2007 general meeting that the severance payments clause will be annulled by the end of his current contract in 2009. This was a partial victory for shareholders. But instead of reacting fast, the Novartis management and Board preferred to stick to their yet valid contracts and exposed themselves to further anger and incomprehension. Next year, this policy will come to an end. What kind of new policy will be agreed upon remains open.

Phonak (Sonova): Sponsoring engagement, 2006

Company founder Andy Rihs is known to be a keen cyclist and a charismatic leader. It was for this reason that the hearing aid company Phonak – today Sonova –, being obviously strongly influenced by its founder's bias, focused its sponsoring activities on cycling. The cycling team Phonak and its most popular team member Floyd Landis tried to reach out not only to hearing aid specialists and audiologists but also to the general public. The argument was that cycling is a popular sport with races such as the Tour de France and other well-known competitions and teams in Germany, Italy, Spain, the Netherlands and Belgium, and thus reaches a broad mass.

While amongst financial analysts covering Phonak the benefit of sponsoring a cycling team as a hearing aid company has always been questioned, it became apparent that the company's reputation took damage after doping scandals became the dominant topic for the sport. Phonak was also involved, with seven cases unveiled alone in the years 2002 to 2006. Since July 2004, Phonak had to fire four riders and sidelined three because of doping convictions and suspicions respectively.

Despite marketing specialists perceiving the frequent mentioning of the name Phonak in the press as a positive sign, shareholders started to question why a hearing aid company, publishing outstanding results after a successful turnaround, brings its reputation at stake by sponsoring a sport which was in the newspapers more often for its scandals than its racing highlights.

As reputation damage became apparent in shareholders', press' and analysts' perception, this sponsoring became a burden rather than an investment. Phonak decided to fold its team at the end of the 2006 season and bring this reputation-damaging engagement to an end.

Instead of engaging in a sport with a poor image and no direct connection to hearing aids, Phonak decided to sponsor activities more closely linked to the hearing business such as music.

Today, Sonova has created the initiative "Hear the World" to raise the awareness about the hearing topic. Sonova now collaborates with several famous musicians as ambassadors for the company's social engagement. Amongst them are Placido Domingo, the Vienna Philharmonic Orchestra, Harry Belafonte, Dionne Warwick and Amy Winehouse.

Siemens: Bribery scandal, 2006 – ongoing

Siemens, Germany's electronics and electrical engineering giant internationally known for its innovation and expertise, faced negative press when a bribery scandal became public in November 2006. The company is still facing this scandal in court in 2008.

The scandal developed when it was said that Siemens managers had been illegally transferring millions into secret accounts for seven years. The money was used for bribes to win foreign contracts. Apparently 30 employees knew of this practice, including members of the group's internal compliance department.

The bribery scandal was uncovered at a time when corporations' image in Germany was already damaged. Indeed, another big German company faced a damaging scandal. Volkswagen management paid employee representatives for holidays and parties, so that they would not get too involved in company politics.

Facing accusations of illegal activities, Siemens saw itself forced to take some actions in order to limit the damage. The company first suspended employees connected to the bribery and the internal code of conduct was tightened. A new compliance adviser was appointed, as well as an international law firm. Both were asked to work with Siemens' auditors, to report on the Group's compliance and control systems. The new CEO, who was recruited outside of Siemens and took over in July 2007, delivered a clear and consistent message that corruption at Siemens must end. To add action to his words he conducted a thorough reorganisation with new divisions thus clarifying reporting lines and making corruption more difficult.

The question of whether foreign bribery has been official policy or was the result of management failure has yet to be answered in court.

Zurich Cantonal Bank: Sulzer, 2007

In November 2006, Zurich Cantonal Bank (ZKB) started to issue stock options on the Swiss industrial company Sulzer for its clients Viktor Vekselberg and Victory investors Ronny Pecik and Georg Stumpf. The goal of the manoeuvre was for the investors to discretely build a position in Sulzer. Meanwhile, the CEO of ZKB, Hans Vögeli, gave internal instructions "not to touch Sulzer" since ZKB has been Sulzer's house bank for many years. The derivatives desk people within ZKB did not follow these instructions and helped Vekselberg and Pecik/Stumpf to acquire a share of 32% by April 2007.

As the public gained knowledge of this and investigations at the Swiss Federal Banking Commission (SFBC) were initiated, ZKB came under pressure by the public, politics and the media. After all, ZKB was perceived as helping foreign investors in an unfriendly takeover of a traditional Swiss company. Since this was not the first attempt of these investors to take over a traditional Swiss company, the public was already sensitised to the topic. It was also the reason why public pressure grew fast and strong. At that time, ZKB's reputation saw a historical low.

It emerged that the division head of investment banking had full knowledge of the role of ZKB's sales team and their activities in this unfriendly takeover attempt and was perceived as being responsible for the bank's actions. Responding to public pressure, ZKB fired him end of April 2007.

Only one month later, the CEO left the company. He formally took the blame for ZKB's actions against Sulzer and resigned. It emerged only weeks later that the former CEO privately held Sulzer-options through an account in another bank and was thus betting on rising Sulzer share prices due to this takeover attempt. This behaviour violated his own instructions to traders within ZKB.

Today, ZKB has a new CEO, a new head of investment banking, a new head of sales and new derivatives traders. The derivatives department certainly has no opportunities for such highly profitable deals anymore but reputation is back on track which is surely worth more in the long term.

Nestlé: Cailler packaging re-redesign, 2006

In an attempt to freshen up the image of traditional Cailler products, Nestlé decided to redesign the chocolate's packaging. Several designers and a well-known marketing director at Nestlé worked on the project. Whereas the new luxury plastic package was certainly less traditional and younger in its appearance, it was also pricier and made with non-recyclable materials.

Consumers did not welcome the new packaging at all. Hardest to accept were its ecological deficits and the higher price. On top of this, Denner, one of the most important Swiss discounters, refused to sell the new Cailler chocolate. Denner feared that consumers would make retailers responsible for the price increase and, therefore, criticised Nestlé publicly.

The print and television media picked up the story and put public pressure on Nestlé and its marketing director. As a result Nestlé's Cailler chocolate suffered a sales deterioration of 30% in the first half year after introduction while it had been a best-seller product before.

Due to public pressure and its fear of reputation loss, Nestlé decided to redesign Cailler's new package just in time for the very important Christmas sales. Only months after the introduction of the luxury plastic packaging, paper and cardboard material came back to the shelves. Very few products stayed in plastic. Costs for the first redesign project were estimated to be CHF 40 million. This estimate did not even include the re-redesign or the hardly quantifiable reputation damage.

Credit Suisse: Lehman investments, 2008

Swiss bank Credit Suisse (CS) has been selling Lehman products, mainly structured products and bonds, for many years. In the course of the tightened market situations in the past months CS continued selling and promoting Lehman products especially to retail investors. According to the reports by various clients involved, the products' capital protection of 100% was mentioned prominently especially to retail investors whilst the promotion activities did not cover a deepened presentation of the risks related to the investment.

In September 2008, Lehman Brothers filed for bankruptcy in the course of the worldwide financial crisis. Accordingly, Lehman products sold by CS were worthless and clients would not even receive their capital protection back. Indeed, according to the general terms and conditions the issuer of the products (and not the seller) is responsible for it.

While other financial institutions selling these products promised their clients to cover the losses due to the severity of the occurrence and the fact that the products were actively promoted, CS stated that clients bear the full loss themselves.

The media immediately took up the story and referred to the promotion strategy of CS sales people who did not highlight the risks associated with the issuer.

Being faced with this kind of reputation damage in this already sensitive time, CS offered to some of its clients to cover the loss partially depending on their individual situation and the severity of their loss. At the time this newsletter went to press, CS still did not officially inform on how many clients are affected by the situation and which amount of Lehman products were sold through the bank. The media speculates there are about 4,500 clients and CHF 700 million worth of investments.

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Print run:
1,500 copies once a year

Publisher:
IRF Communications AG
Rämistrasse 4
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CH-8024 Zurich

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Layout:
Atelier Frei

Printer:
benecom GmbH

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- *Crisis communications*
- *Financial communications*
- *Media relations*
- *Analysis & insight*

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