

Recalls and Reputations: The cost of not being crisis prepared.

By

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Agenda

1. What is reputation?
2. The importance of reputation to organizations
3. The drivers of reputation
4. The importance of crisis preparedness
5. The drivers of crisis preparedness
6. Case Study: Mattel vs. Menu
 1. How could we help these companies

What Business Leaders Think...

"You can't build a reputation on what you are going to do."

Henry Ford



"If you lose dollars for the firm, I will be understanding. If you lose reputation for the firm, I will be ruthless."

Warren Buffett



The Reputation Context

- An intensely competitive, global marketplace
- **24/7 media and internet environments**
 - No place to hide
- The drive for Inimitable advantages
 - commoditization
- **Vocal consumerism/stakeholder centric**
- Increased focus on corporate governance
- The rise of intangible assets
 - 80/20 Intangible to Tangible Value
- The increasing drive for **measured contributions**

Why Reputations Matter

- Reputation:
 - “A resilient asset to some companies in a difficult marketplace”
 - Stakeholders’ perceptions of reality
 - Customers, employees, investors, media, financial analysts
 - Influence investment decisions (herd mentality), prospective
 - A good one acts like a magnet
 - Create differentiation and competitive advantage
 - Affect strategic positioning
 - Mirror that reflects company success
- Environmental trends adding to increased importance of reputation
 - Globalization, Information Availability, Product Commoditization, Media Mania, Ad Saturation, Stakeholder Activism

What Are Reputations Worth?

- Reputation and financial value are related in three ways:
 - Operating performance
 - Profitability affects market perceptions of future prospects
 - Operating activities themselves contribute to building “reputation capital” – a shadow asset
- Reputation Affects Operating Performance
 - Stimulates employee productivity
 - Creates reservoir of goodwill
- Reputation Creates Financial Value That Builds Reputation
 - Receive favorable endorsements from stakeholders and the media
 - Fortune’s most admired
- Reputation Has Financial Value as a Corporate Asset
 - Branding and reputation-building help build a company’s visibility, familiarity, and fame – investments in creating reputational assets
- **Crisis costs include loss of reputation capital**

Intangible Assets Increasingly Drive Reputation

- Ernst & Young (2003) found that 85% of market value of S&P 500 was comprised of perception of value of intangible assets, with 15% from tangible assets;
- In 1982, intangibles comprised only 38% of the market value;
- Intangible assets are “a claim to future benefits that do not have a physical or financial component” (Lev 2001);
- Intangible assets include: perceived quality of management, ability to attract and keep talent, specialized skills, quality of customers, relationships, innovation, technology, etc.

Reputation Capital = MV - BSA

Apple:

Market value: \$58 billion

Balance sheet assets: 19.8%

Reputational Capital: 80.2%

Starbucks:

Market value: \$27.8 billion

Balance sheet assets: 12%

Reputational Capital : 88%

Tim Hortons:

Market value: \$6.93 billion

Balance sheet assets: 25%

Reputational Capital : 75%

Shoppers Drug Mart:

Market value: \$11.48 billion

Balance sheet assets: 40%

Reputational Capital : 60%

Research In Motion:

Market value: \$55.16 billion

Balance sheet assets: 5.5%

Reputation Capital: 94.5%

Reputation is a Differentiator of Value

- **Employees**
 - **Attracts and keeps talent**
 - **Builds pride**
 - **Makes jobs more attractive and motivates employees**
- **Customers**
 - **Attracts new customers**
 - **Encourages repeat purchases**
 - **Builds market share**
 - **Opens new market opportunities**
- **Investors**
 - **Lowers cost of capital**
 - **Attracts new investments**
- **Media**
 - **Generates more positive coverage**
- **Government**
 - **Enhances support**
 - **Minimizes chance of enhanced scrutiny**
- **Communities**
 - **Builds support**
 - **Minimizes concerns**



What Drives Corporate/Organizational Reputations?

What Drives Reputation?

- **Relationships**
- **Trust/Emotional Appeal**
- Quality of products/services
- Satisfaction – employees and customers
- Performance – financial and organizational
- Responsibility/Citizenship
- **Word of Mouth/Credible Source**
- Governance & Compliance – rules/regulations
- Leadership, vision and visibility

The Drivers of Relationships

- Trust
- Transparency (Honesty and Openness)
- Commitment
- Satisfaction
- Control Sharing



The Leger/McMaster Reputational Drivers Study

Research Design – US and Canada

In Canada, a random sample survey was completed with 1500 Canadian households using an online methodology during March, 2007. As well, a random sample of 466 adults in the U.S. were contacted to complete a survey on-line in December, 2006. Respondents were asked to share with us some opinions they had regarding major companies. Respondents completed a 10 minute survey which asked of their awareness, and attitudes towards these brands.



Companies Evaluated

US Study

- **Wal-Mart** (Retail)
- **Starbucks** (Food and Beverage)
- **Sony** (Electronics)
- **Dell** (Information Technology)
- **IBM** (Information Technology)
- **Amazon.com** (e-commerce)
- **Costco** (Retail)
- **Philip Morris** (Tobacco)
- **Honda** (Automotive)
- **General Electric** (Appliances, Many Others)
- **General Motors** (Automotive, Finance)
- **ExxonMobil** (Petroleum)
- **FedEx** (Courier)
- **Southwest Airlines** (Aviation)

Canadian Study

- **Wal-Mart** (Retail)
- **Starbucks** (Food and Beverage)
- **Sony** (Electronics)
- **Dell** (Information Technology)
- **IBM** (Information Technology)
- **Amazon.com** (e-commerce)
- **Zellers** (Retail)
- **Tim Hortons** (Hospitality)
- **Honda** (Automotive)
- **General Electric** (Appliances, Many Others)
- **General Motors** (Automotive, Finance)
- **PetroCanada** (Petroleum)
- **FedEx** (Courier)
- **West Jet** (Aviation)





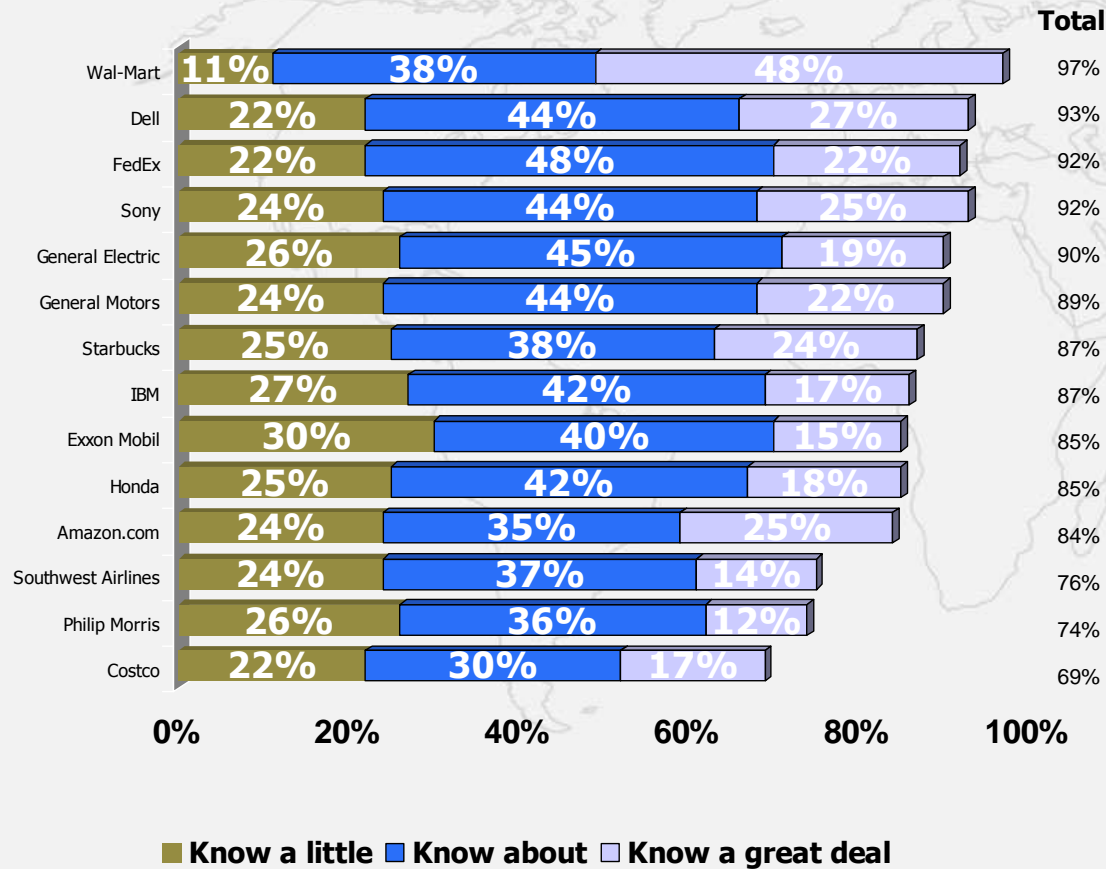
Company Performance

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Company Awareness - US

Awareness for Companies in Analysis

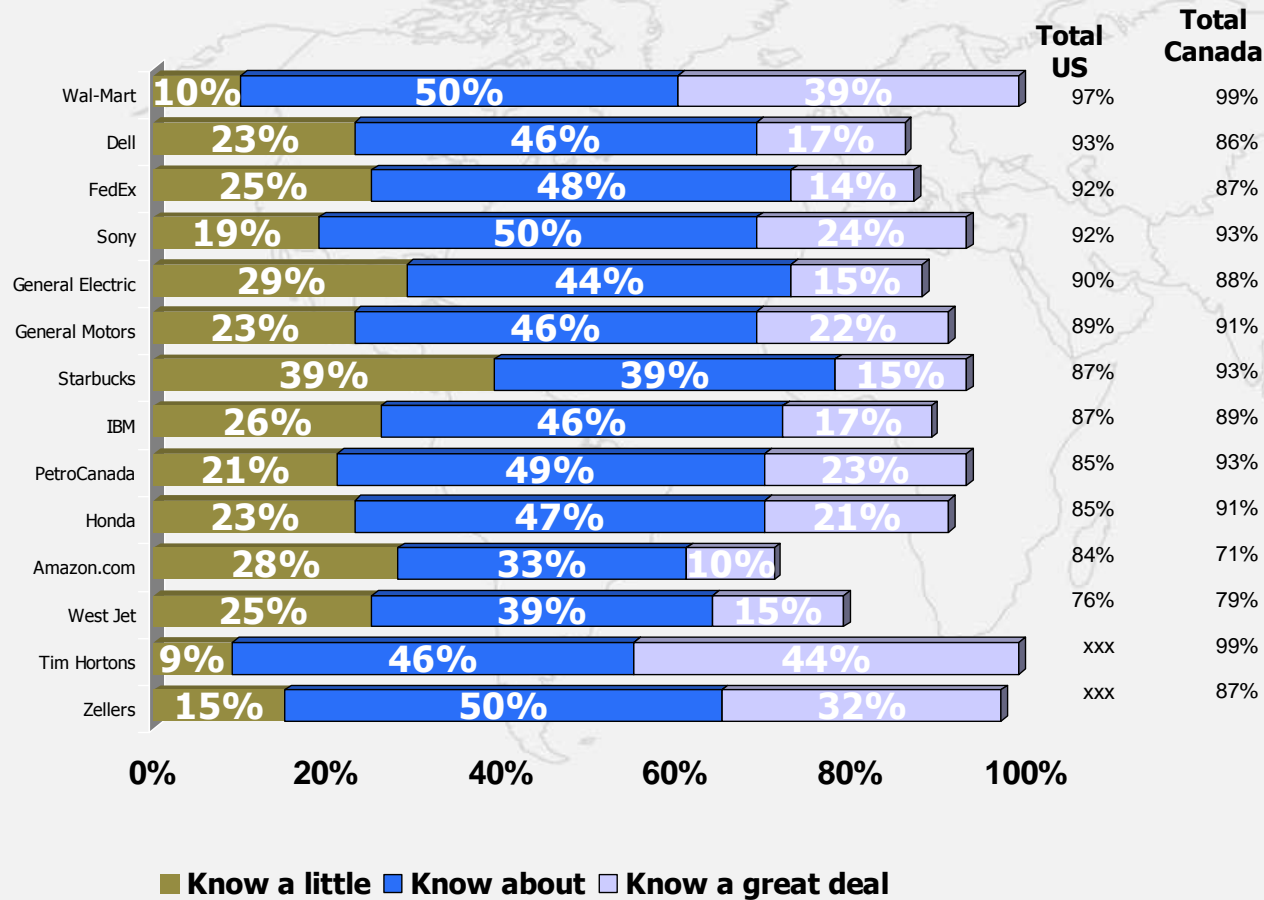


•Wal-Mart was the best known company in this research with all but 3% of respondents with some familiarity with it.

•Most of companies in this research are very well known. Costco, the company with the lowest familiarity, was still known by nearly 7 in 10 people.

Company Awareness - Canada

Awareness for Companies in Analysis

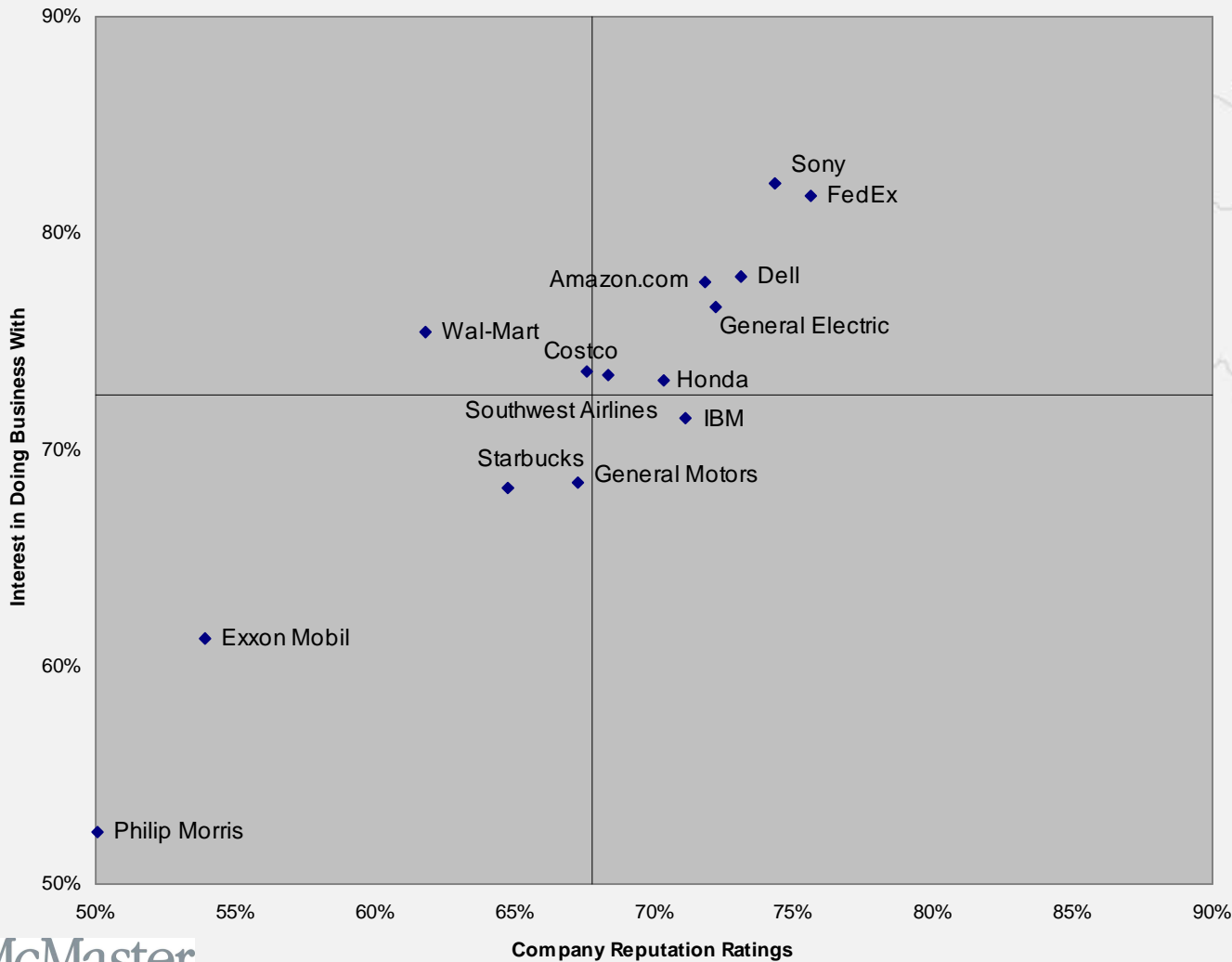


•In Canada, Tim Hortons was the best known company in this research with 99% of respondents with some familiarity with it.

•Canadians, tend to be as aware of US companies but the level of awareness is less: higher "know about" and lower "know a great deal" scores.

Company Performance: Comparison of Measures - US

Reputation and Interest in Doing Business With



•In general a pattern emerges demonstrating that interest in doing business with and reputation ratings are very closely related.

•However, Wal-Mart has a lower reputation but a positive interest in doing business with.



Company Performance: Comparison of Measures - Canada

Reputation and Interest in Doing Business With



• There is less of a pattern in Canada, but Tim Hortons ...



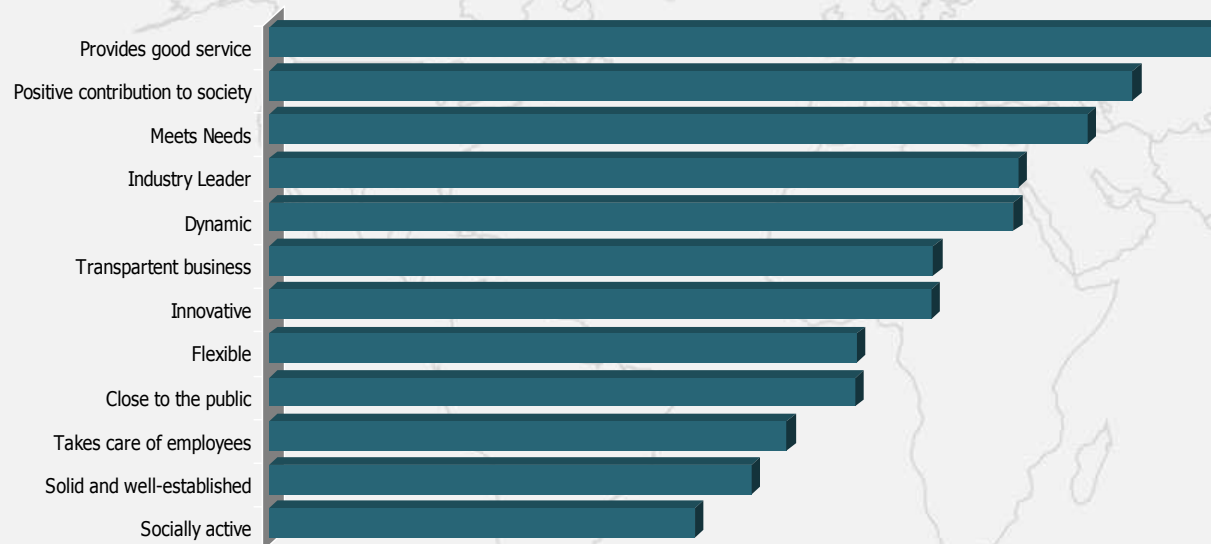
Drivers of Reputation

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Drivers of Reputation: Derived Importance - US

Overall Relative Impact of Drivers of Want to Do Business With



- Relative to the other drivers, providing good service is most important for having a strong reputation.
- Less important is how socially active a company is, how well-established they are and how they take care of their employees.
- It is interesting to note how highly offering a positive contribution to society rates.
- Focusing on good, innovative service while being seen as making a positive contribution to society appears to be the best global approach to building a strong reputation.

Drivers of Reputation: Derived Importance - Canada

Overall Relative Impact of Drivers of Want to Do Business With



•In Canada, reputation is slightly less important when it comes to determining where we do business but still critical.

•As well, the drivers stay consistent with what drives reputation.

Who's Got It In Canada

RepTrak Pulse, 2006

1. McCain Foods
2. George Weston
3. Empire Company
4. TD Bank
5. Bombardier
6. Scotiabank
7. RBC
8. Manulife
9. Alcan
10. Sun Life Financial

*Sample of 680 consumers in Canada conducted by the Reputation Institute (2006)

The Leger Top 100 Most Reputable Companies in Canada

Rank	Company/Organization	Score 2006*	Good Opinion	Bad Opinion	Unaware	Change from 2005
1	Canadian Tire	80	88%	8%	4%	+2
2	Tim Hortons	78	83%	5%	11%	-6
3	Sony	78	81%	3%	16%	--
4	Sears	74	82%	8%	10%	-1
5	Kraft	74	80%	6%	14%	0
6	Nestle	73	78%	5%	17%	0
7	Panasonic	72	75%	3%	22%	--
8	Subway	70	77%	7%	16%	-5
9	McCain	69	75%	5%	20%	0
10	Home Depot	69	75%	6%	19%	+4
11	Staples Business Depot	67	71%	4%	24%	--
12	Maple Leaf Foods	67	73%	6%	21%	-3
13	Canada Post	67	78%	11%	11%	0
14	Home Hardware	67	70%	3%	27%	+5
15	Shoppers Drug Mart	67	70%	3%	27%	-1
16	Honda	66	68%	2%	30%	+8
17	Toyota	66	69%	3%	28%	+8
18	HBC: The Bay / Zellers	65	75%	10%	15%	--
19	CBC	65	73%	8%	19%	+3
20	General Electric (GE)	64	69%	5%	26%	--
21	Rona	56	60%	4%	36%	+1
22	Coca Cola	55	71%	16%	13%	-1
23	Pepsi Cola	55	70%	15%	15%	0
24	Microsoft	53	60%	8%	31%	--
25	Costco Price Club	52	60%	8%	32%	-3

The Canadian Reputation Capital Index



Canadian Tire	(1)	Second Cup (Income Fund)	(55)
Tim Hortons	(2)	TD Canada Trust	(58)
Maple Leaf Foods	(12)	Alcan	(59)
Shoppers Drug Mart	(15)	BMO Bank of Montreal	(60)
Rona	(21)	Air Canada	(61)
Molson	(28)	CIBC	(63)
Petro Canada	(35)	Telus	(64)
Westjet	(42)	Scotia Bank	(66)
Shell Canada	(44)	Rogers	(69)
Esso/Imperial Oil	(45)	Great West Life	(70)
RBC/Royal Bank	(49)	Sun Life Financial	(75)
Bell Canada (BCE)	(47)	Manulife Financial	(79)
Bombardier	(54)	Canwest Global	(82)

Worth In Progress

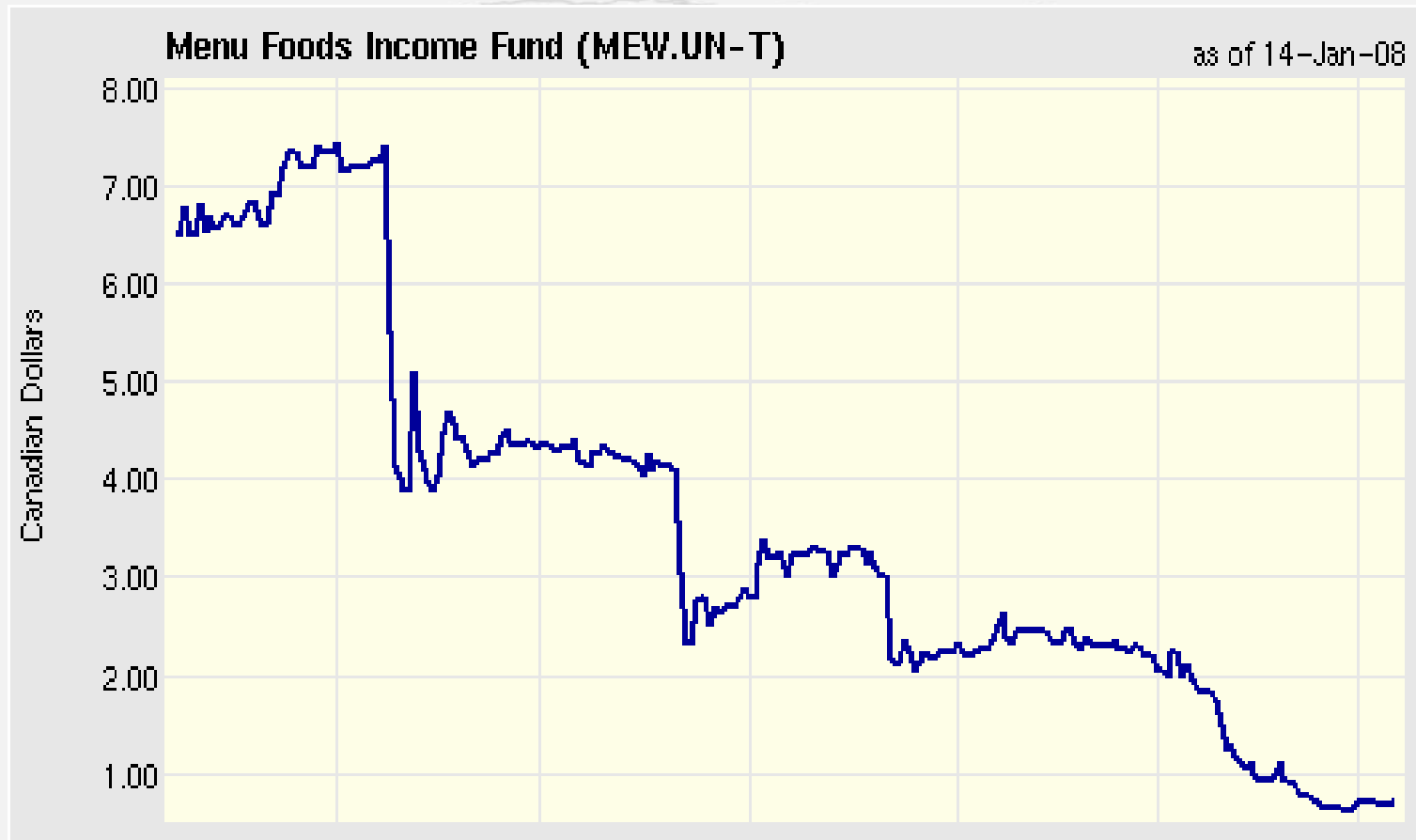
- 26 Companies from 2006 Leger Top 100 Reputation Companies (Canadian Tire, Tim Hortons, MLF, SDM)
- Canadian owned and publicly traded
- Beta = 0.783
- Difference with Market Beta = -0.217
- Rate of Return (1 year) = 25.09
- Total Expected Rate of Return = 10.7
- Reputational Difference = 15.02%
- 5 year rate of return (annualized) = 16.31

DOES Reputation Matter...you bet!

Case Study: Menu vs. Mattel



A Dog's Breakfast – Menu Foods



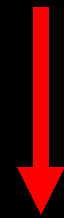
\$7.40

90%

MKT

CAP

\$194.16m



\$0.70

Barbie's been bashed



Mattel's Attempt to Protect It's Reputation

- [Don't Recall A More Active Year for Mattel](#)
 - 35 major recalls since 1998
 - 11 in 2007 alone
- \$30 million spent on Day 1 of August recalls on communications and relationship management
- Active engagement of the CEO to be front and center in the early days...
- But that was August and 10 more recalls later

Reputations and Crisis

- Research clearly shows that those companies that are prepared for a crisis have a faster and more resilient “bounce back”
- Six key organizational attributes of crisis preparedness:
 - Crisis mindset
 - Open organizational culture
 - Visionary leadership
 - Crisis management procedures
 - Communicative
 - Learning organization
- 40% of organizations that have low scores on these attributes go out of business within two years of suffering a significant crisis event.
- For publicly traded companies...crises immediately effect share price and market value.
 - The biggest impact is on reputational capital

“Credo Quia Impossible” (I believe it because it is impossible)



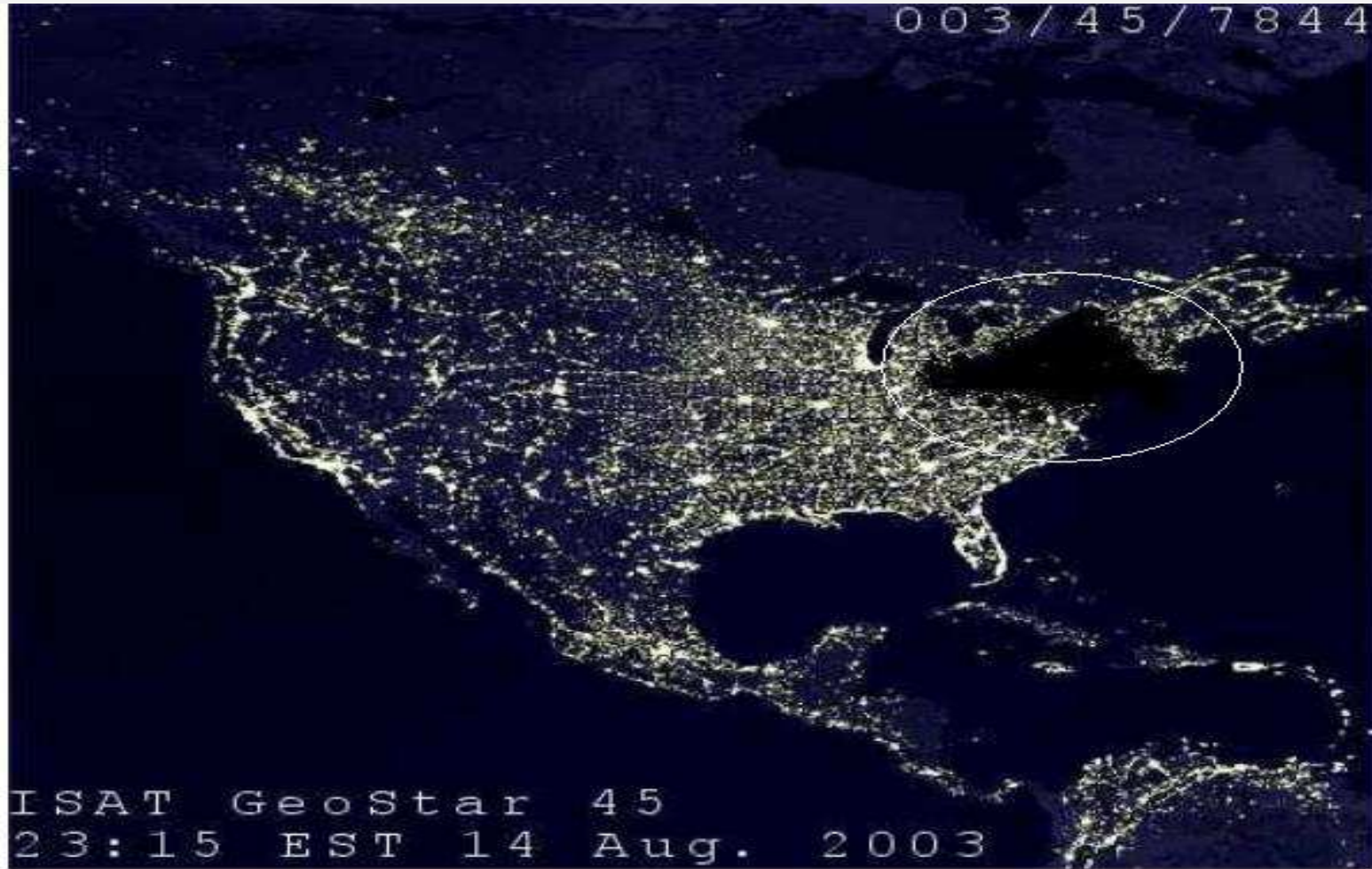
The Illusion of Invulnerability



It's As Cold As Ice...



The Heart of Darkness



The Crisis Paradox Questions

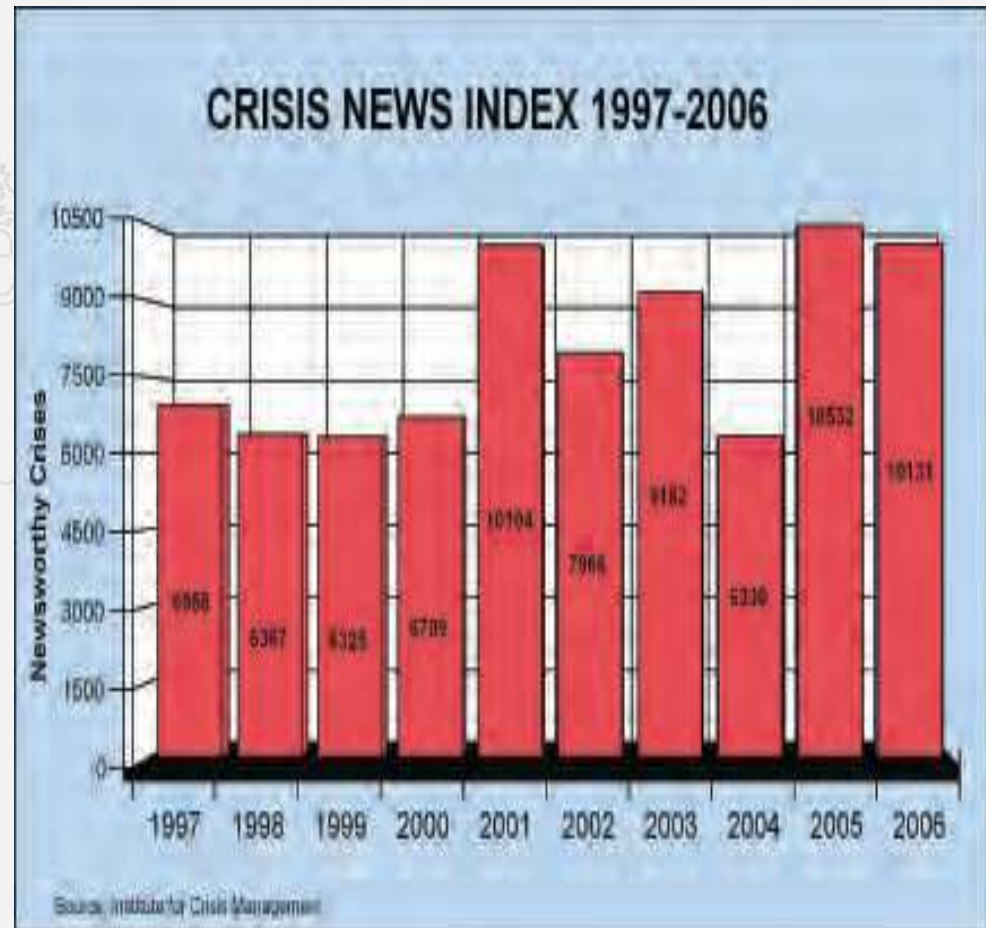
- **Must an organization suffer a crisis before it can truly prepare for an organizational crisis?**
- What factors and behaviours must be present for an organization to predict and prevent future crises?
- If crisis evaluation research suggests that most organizational crises are knowable, predictable and preventable, why aren't we prepared?

Some Insights

- The Ice Storm
- 9/11 Attacks
- NASA Challenger & Columbia
- Town of Walkerton
- BSE/Mad Cow
- SARS/Flu Pandemics
- 2004 Tsunami / 2005 Pakistan Earthquake
- Hurricane Katrina

Crisis News Coverage

- 2001 was the most crisis filled year in the ICM crisis database. That was the year of the corporate meltdown that included the beginning of the end for Enron, Worldcom, Arthur Anderson, Tyco, ImClone and Martha Stewart.
- 2003 was the second most crisis prone year since the ICM began tracking negative news coverage in 1990.
- NASA, SARS, Blackout
- 2005 Tsunami and Katrina



Categories of Crisis

Crisis Categories Compared 1990 – 2006
(% of total crises each year)

	1990	2002	2005	2006
Catastrophes	5.5	4.0	14.0	9.0
Casualty Accidents	4.8	4.0	9.0	7.0
Environmental	7.8	2.0	2.0	2.0
Class Action Lawsuits	2.2	20.0	13.0	7.0
Consumer Activism	2.8	2.0	7.0	4.0
Defects & Recalls	5.4	13.0	3.0	4.0
Discrimination	3.3	3.0	3.0	4.0
Executive Dismissal	1.3	1.0	2.0	2.0
Financial Damages	4.2	3.0	4.0	4.0
Hostile Takeover	2.6	1.0	1.0	1.0
Labor Disputes	10.3	11.0	9.0	10.0
Mismanagement	24.1	11.0	9.0	14.0
Sexual Harassment	.4	1.0	1.0	2.0
Whistle Blowers	1.1	1.0	1.0	1.0
White Collar Crime	20.4	14.0	18.0	21.0
Workplace Violence	3.8	11.0	3.0	9.0

The Cost of Crisis

- **Exxon Valdez**
 - Clean up \$2 billion
 - Lawsuits and legal costs \$5 billion
 - **1998 Ice Storm**
 - Deaths 45 (Can/US)
 - Insured Loss \$1.2 billion
 - **Walkerton**
 - Deaths 7 residents
 - Remediation/legal \$155 million
 - **SARS**
 - Deaths 44 people
 - Economic impact (Toronto) \$1.5 - 2 billion
- Annual insured costs**
- Man-made disasters \$10-60 billion
 - Natural catastrophes \$6 billion
 - \$14 billion



A Definitional Framework

- The crisis continuum:
 - cause (incident) and effect (survivability)
 - Vary in degree and probability
 - All share the threat of causing damage
 - Physical and financial
 - Overwhelming majority start small and internal and are left unchecked/unnoticed.
- Therefore should be defined as:
"an event, large or small, that can suddenly disrupt an organization's ability to efficiently and effectively achieve its mission."



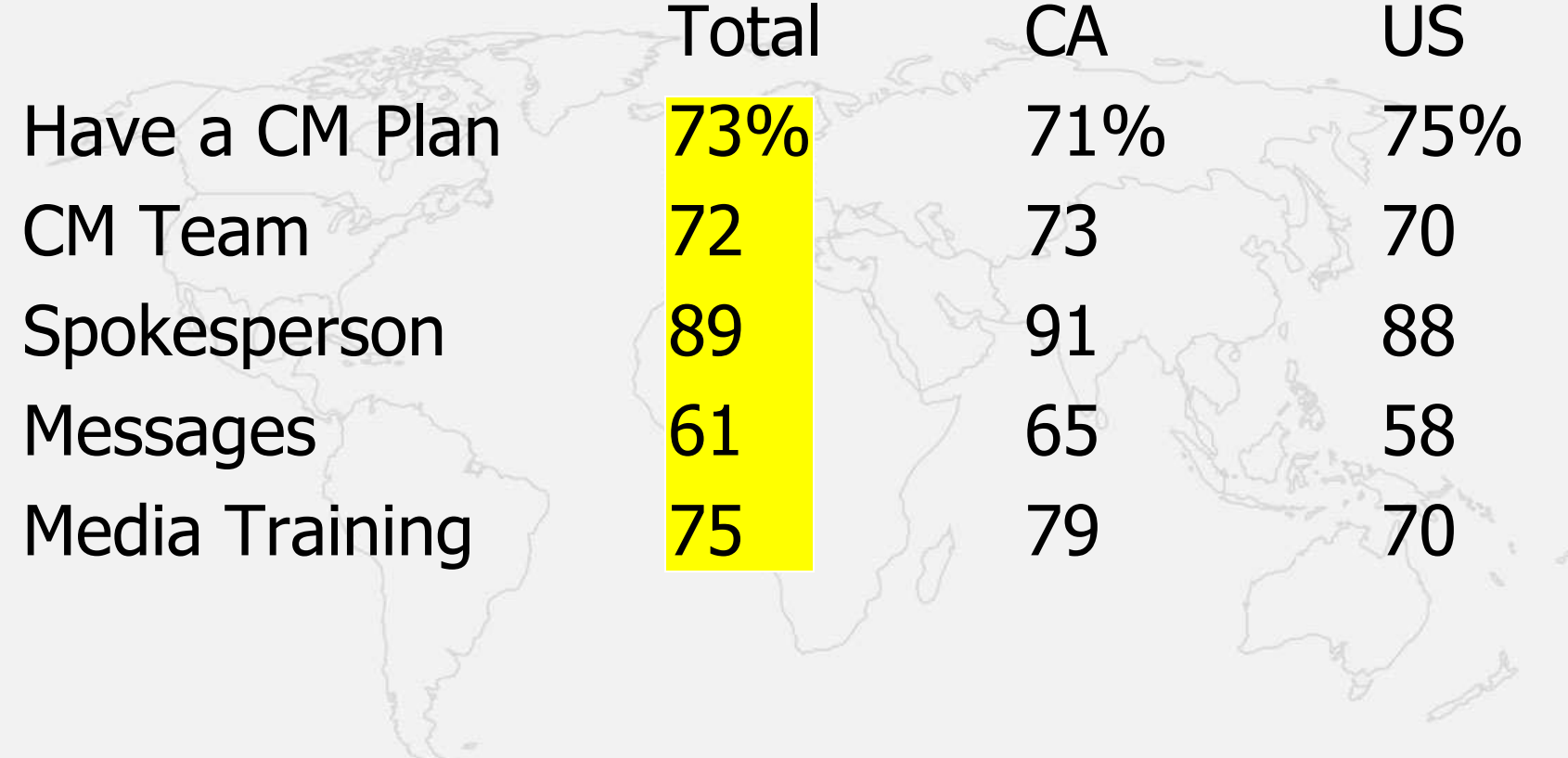
To Prepare or Not...

- Penrose (2000) reported that 40 % of Fortune 1000 industrial companies did not have a crisis plan.
- 2003 AMA study showed that 36 % didn't have a plan and furthermore 38% didn't have a crisis management team.
- What is preparedness – it's more than a plan.

The Basics -- A Contingency Framework

- A Crisis Management/Communications Plan
- A CM Team
- A trained crisis spokesperson(s)
- Development of crisis response messages

Survey of 450 Companies Says...

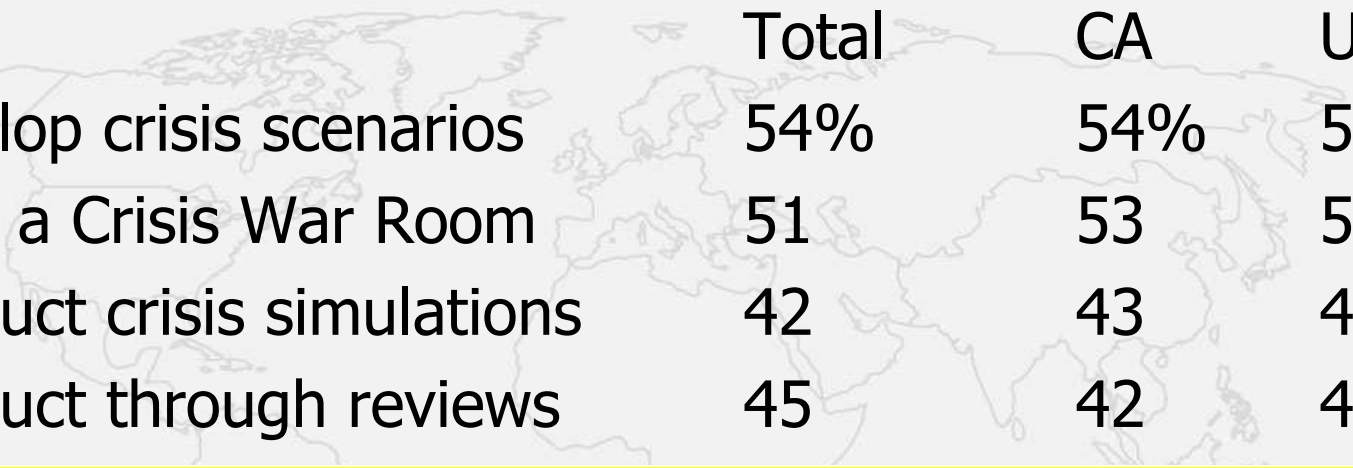


	Total	CA	US
• Have a CM Plan	73%	71%	75%
• CM Team	72	73	70
• Spokesperson	89	91	88
• Messages	61	65	58
• Media Training	75	79	70

A Relational Approach

- Develop crisis scenarios
- Conduct crisis simulations
- Crisis web site
- Have a Crisis War Room
- Involve local regulators
- Show your plan to stakeholders
- Conduct thorough reviews
- Issues anticipation system

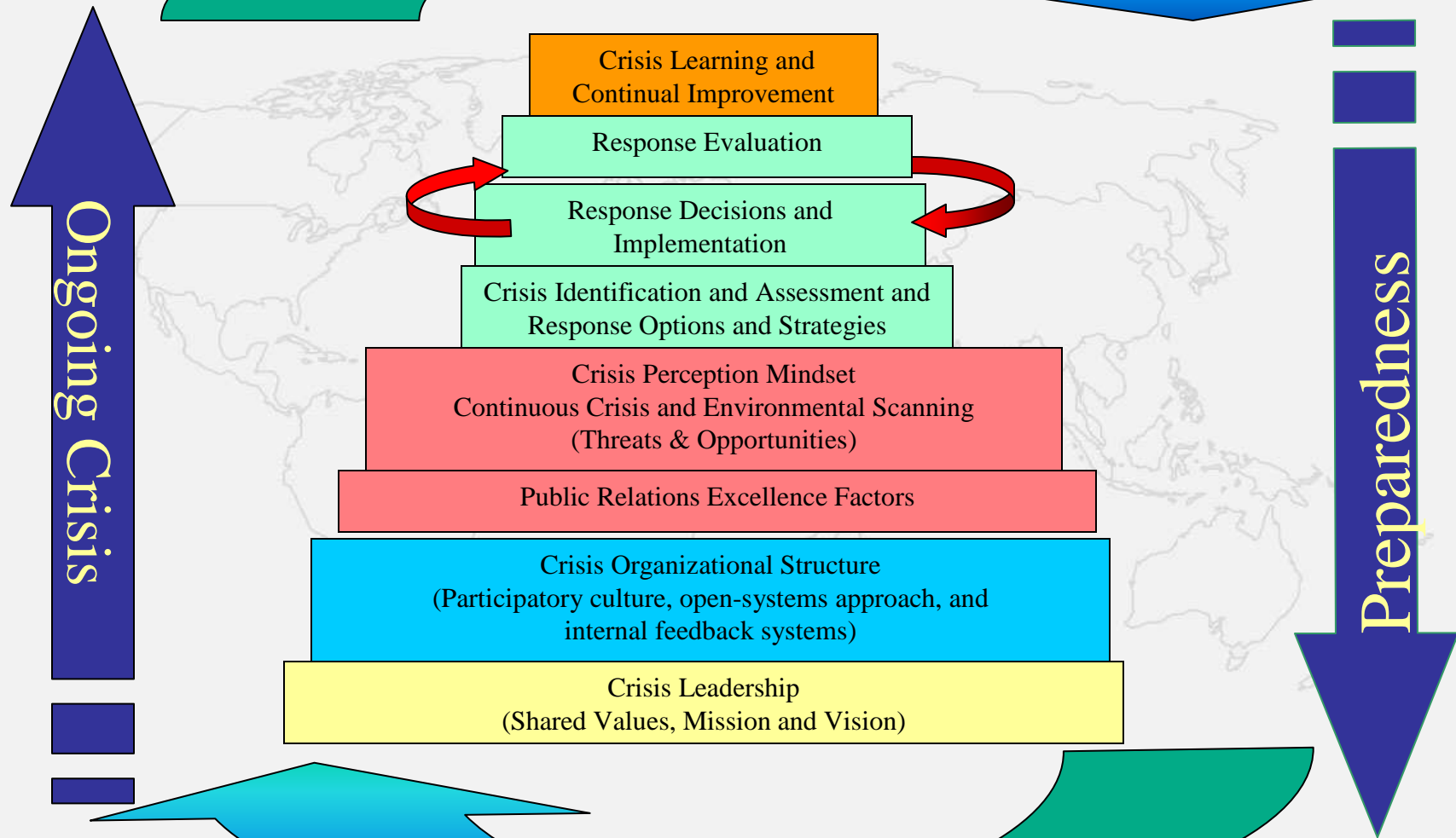
Advancing Preparedness



	Total	CA	US
• Develop crisis scenarios	54%	54%	53%
• Have a Crisis War Room	51	53	51
• Conduct crisis simulations	42	43	41
• Conduct through reviews	45	42	48
• Involve local regulators	39	40	39
• Discuss with stakeholders	37	39	36
• Issues anticipation system	35	38	31
• Crisis web site	22	22	21

Influences on Preparedness

- Leadership
- Organizational Culture
- Public Relations Capacity
- Mindset
- Crisis Learning



Crisis Leadership Is:

“...the ability to motivate and empower an organization to **strategically anticipate** potential threats and opportunities and **respond decisively** to sudden challenges to the **viability and legitimacy** of the organization. A crisis leader achieves this through a set of shared values and vision, designed to flexibly meet and address the human and societal needs of the organization during and following a crisis event.”

Crisis Leadership Attributes

- Solution focused
- Strategic
- Legitimate
- Flexible
- Open, participatory, and communicative
- Empowering and motivating
- Decisive and determined
- Concerned about human and societal needs

Crisis Mindset: Preparing For The Worst Case

- Not a matter of if but when
- Starts with management's perceptions about risk and risk-taking
- Battle the third-person effect: "it will happen to them before it happens to us!"
- Human disinclination to address a crisis that hasn't happened

The 9/11 Commission

“We were unprepared. We did not grasp the magnitude of a threat that had been gathering over a considerable period of time. This was a failure of policy, management, capability and, above all, **a failure of imagination.**”

Thomas H. Kean
Chair,
National Commission on Terrorist Attacks
Upon the United States



Public Relationships

- A strategic managed function
- Goal is to develop mutually beneficial relationships with stakeholders
- Anticipates, plans and manages potential issues
- Enhances the organization's reputation and relationships with key publics
- Stronger relationships = enhanced business continuity

Learning To Lead

- Creating a learning organization
 - Built on three precepts
 - Trust, communications and corporate responsibility
 - Systematic deconstruction of crisis response events will enhance future preparedness
 - Transform experiences into knowledge
 - Barriers
 - Rigidity of core beliefs, cognitive narrowing, inability to identify threats and opportunities

The Path To Preparedness

1. A Crisis Issues Management Approach
 - **Leger Dashboard**
2. A systematic crisis management system
3. A focused crisis leader
4. A desire to learn from previous crisis events
 - **Issues Tracking**
5. Developing and fine-tuning a crisis mindset
6. Strong relationships with key stakeholders
 - **Ongoing Stakeholder Surveys (pre/post)**
7. A strategic and managed approach to public relations.
8. Advancing preparedness beyond the basics.

Questions/Comments?

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