CORPORATE REPUTATION

AND THE POWER OF MEDIA

MR ROLAND SCHATZ,
MEDIA TENOR INTERNATIONAL, CEO

In the aftermath of the tsunami, Japan received huge support from around the world as people tried to help those in need as best as they could. Yet, at the same time, the Fukoshima accident was abused by several media outlets in Europe to push their own political agendas against nuclear energy. Instead of covering the full story showing all the responses undertaken by the Japanese people, government, corporations, universities, and diverse community organizations, these media outlets only covered the accident from the perspective of anti-nuclear power activists.

In today's world we can no longer expect that everybody understands what is happening beyond their own horizon; we are dependent on journalists to tell us what is happening in other regions, districts, countries, and continents. As a journalist myself, I was taught by my grandfather and my parents – who all were proud journalists themselves – that a story is only covered when there are at least three different perspectives available that also serve to confirm the story.

Their prestigious car-manufacturing giant, Toyota, came under media attack as the company was on its way towards replacing General Motors as the number one car producer in the world. Suddenly, stories were published, mainly in US media, that were far from proven correct but that hardly anyone was questioning. Accidents had been reported, all with a Toyotas involved. US journalists only barely questioned the drivers' skills in these accidents and just repeated the story that Toyota' s car production process and quality was at fault.

Without this, a journalist does not go to print. Even more importantly, I was told to take particular care about the quality of my three different sources. The reward for this understanding of journalism was that my grandfather and my parents were respected members of their society: people wanted to hear more about their opinions because they knew about the quality of their sources.

In today's world this understanding of journalism still exists, but there are also other options out there. The latest scandals in the UK and the US have highlighted that within the Murdoch companies not everybody shares this perspective of responsible sourcing. This raises the question of whether there a way to take shelter from less qualified journalism.

Even before the tsunami, Japan was already paying a high price. Their prestigious car-manufacturing giant, Toyota, came under media attack as the company was on its way towards replacing General Motors as the number one car producer in the world. Suddenly, stories were published, mainly in US media, that were far from proven correct but that hardly anyone was questioning. Accidents had been reported, all with a Toyotas involved. US journalists only barely questioned the drivers' skills in these accidents and just repeated the story that Toyota's car production process and quality was at fault.

Why was it so easy for the US media to spread these stories? It was part of Toyota's culture, and it still is, to not speak much in public. This echoes what we were taught by our grandparents: do well but don't talk about it. Toyota thought they could maintain this practice, because in Japan it was extremely successful. Once they moved to other parts of Asia, it continued to work just as well. But the world is more than just Asia with its strong cultures and traditions. Beyond Asia, additional and sometimes totally different traditions exist and dominate perception.

For those who want to operate successfully in a truly global way, it is important to understand diverse ways of communication and perception. This can be called "reputation management." People who understand what makes journalists tick in different cultural and national settings can protect their own interests while also showing respect for the needs of the recipient. As long as the facts are not changed or ignored there is no problem. But if care is not taken to learn these cultural differences and understand that it is not only food, but how stories are selected and framed, that varies from country to country, reputation is at risk.

But if care is not taken to learn these cultural differences and understand that it is not only food, but how stories are selected and framed, that varies from country to country, reputation is at risk.

Toyota took this risk and paid a high price back in 2005 and again in 2009, when even President Obama felt it was part of his job to attack this foreign company by ignoring the reality. It didn't help Toyota when nine months later tests delivered the facts: the accidents had not been caused by poor manufacturing but by poor driving. After nine months of incorrect reporting, very few people were interested in listening to the corrected story.

Reputation Risk – How can we get a handle?

The crisis at Apple, BP, and Toyota demonstrate that reputation is no longer merely nice to possess but, rather, is a strategic asset that affects every company's bottom line. As we have seen from the case of Toyota, companies suffer if they fail to maintain an ongoing news flow in opinion-leading media.

Since the 2002 Nobel Prize in economics was awarded to Daniel Kahnemann for his research on financial sentiment,

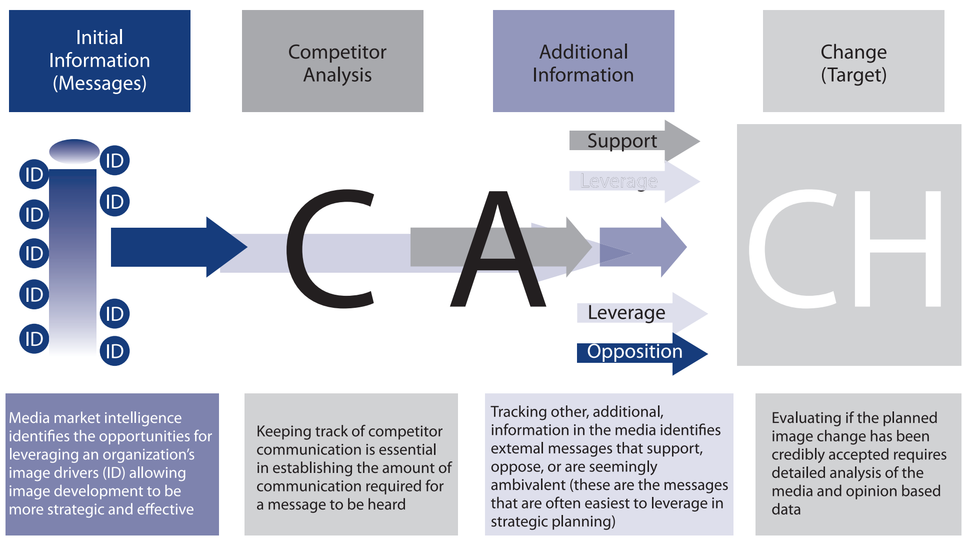
The crisis at Apple, BP, and Toyota demonstrate that reputation is no longer merely nice to possess but, rather, is a strategic asset that affects every company's bottom line.

empirical social science has applied its tools to modern reputation and risk management. More and more case studies support the theory that media content affects tourist travel decisions, stock price fluctuations, shareholder behavior, and even consumer trends. This research is statistically focused and offers more than anecdotal impressions, so corporation today can manage their reputation and investor relations based on much more than gut feelings. Clear quantitative and qualitative goals can be used by businesses to measure progress, assess their public relations strategies, and ultimately succeed in the marketplace. On a daily basis, Media Tenor experts capture and analyze each citation of financial analysts in the FT, WSJ, Mint, Les Echos, and other opinion-leading business media on stocks, commodities, bonds and any other topic, and offer this database-driven consulting as part of an total research package which includes examining the impact of the media on stock prices, country perceptions, and client satisfaction.

Media Tenor developed the ICA=CH model (see table above) be defining not only relevant messages about each individual candidate (I), but also about his or her competitors (C). We then – and this is the key to startling success of Media Tenor predictions – take into account all additional (A) information provided by the media at the same time. *(Models)*

(Models)

Media Tenor ICA=CH Model



Change (CH) e.g in voter behavior or the monthly consumer confidence index can predicted if all three indicators are evaluated in a scientific way.

The utility of this model has quickly become apparent to a wide range of experts. Prof. Jan-Egbert Sturm, head of the KOF at the ETH Zurich; Prof. Ulrich Fritsche, University of Hamburg; and Prof. Bob Eccles, Harvard Business School, used this unique database to build several models predicting the influence of media reporting on the business elite index IFO, on perceptions of inflation, and even on the interest-rate decision of the European Central bank.

Based on these indicators, Media Tenor defines concrete quantitative and qualitative media placement goals for each individual board member of a particular company. This includes target numbers on how many interviews to give, how many opinion columns to write, as well as goals related to other media engagement opportunities. Each suggestion is designed to keep the company above what Media Tenor terms the awareness threshold in a given region. By keeping a company in the news in this manner, an image is created that provides shelter for the company, and helps retain and expand its sales, build awareness amongst high potentials, and support share price. Equally important, by sustaining an image above the awareness threshold, a company's ongoing image helps to counterbalance bad news when a crisis occurs. Breaking through the awareness threshold gives senior management a solid base of credibility with journalists, with whom they have established a regular pattern of media contact.

The concept of reputation management can be understood through an analogy wherein the poison of bad news is diluted in a glass of water. If somebody put three drops of poison into a nearly empty glass, the toxin would be enough to kill anyone

who took a sip. If the glass were full of water, however, those three drops of poison wouldn't have nearly as significant and permanent an effect if someone took a sip. In media relations the situation is similar: for companies like Toyota or BP, firms which tend to avoid having a regular news flow in mainstream media and limit contact with outside world, three bad reports can have a huge impact, including stock price turbulence as well as problems with client and employee satisfaction. But if a company communicates on an ongoing basis – such as VW Volkswagen (VW) does – then even horrible news like the prostitution scandal, corruption allegations or even fraud do not significantly disturb the public's overall perception of the company. While in the case of VW the headlines matched the facts, the stakeholders and shareholders were also receiving news regarding the company's latest successes in R&D, the good sales if the Golf and the communication on VW's new human resources strategies.

How does this process relate to risk management? Corporations, industries and even regions often are confronted with two possible scenarios: their image can be better in the media than in reality, or worse. We define both circumstances as reputation gaps. Both are potential risks.

How does this process relate to risk management? Corporations, industries and even regions often are confronted with two possible scenarios: their image can be better in the media than in reality, or worse. We define both circumstances as reputation gaps. Both are potential risks.

a) In the case where a company's performance is factually better than its reputation (e.g Toyota), the company will pay a high image price when something goes wrong. Failure to manage reputation proactively will result in significant costs, while efforts to address the problem after something has gone wrong will often be ineffective – for example, campaigns which try to convince the audience through obviously paid advertisements that comments in the editorial section a page earlier were false. In this scenario, a company can expect recalls, rising skepticism from top clients, bank demanding higher interest for loan agreements and costs that hamper the ability to conduct business and grow profits.

b) In the case where a company's performance is factually worse than its reputation (e.g Google or Facebook, it is just a question of time before the bas new starts. Frustrated employees or business associates may leak data to the media or, perhaps, an accident will happen. The positive, yet exaggerated, spin the company has received in the past will be turned on its head abruptly – in a matter of days.

Strategic media reputation management cannot predict when such a "reputation hurricane" will happen, but it is able to predict how long the storm will last and how best to minimize its damage.

The positive, yet exaggerated, spin the company has received in the past will be turned on its head abruptly – in a matter of days.
Strategic media reputation management cannot predict when such a "reputation hurricane" will happen, but it is able to predict how long the storm will last and how best to minimize its damage.

Strategic media reputation management provides clear, measurable data regarding how many reports are necessary to counterbalance an image attack, and provides top management time enough to respond in an accurate and professional way. A number of qualitative factors also play a role, most importantly the share of voice (the amount of media interviews and opinion columns that quote the company directly providing its own perspective unfiltered by journalists) which also needs to be professionally managed. Additionally, the percentage of analyst quotes mentioning the company need to be pushed to a maximum of 10% to achieve varied perspectives that will enhance reputation. These are just two of

The tools exist, but the question remains: are companies ready for diagnosis? In the decade since Enron collapsed, we have seen too many executives who would rather change their doctor and ignore the bad news than cure the disease.

the ten indicators examined in reputation risk management at Media Tenor.

Based on these ten indicators and a research approach based on a complete report database that allows for the definition of the relevant awareness threshold, each individual industry builds its own reputation risk matrix, allowing them to spot in real time where a company's image stands and what needs to be done achieve more favorable conditions.

The tools exist, but the question remains: are companies ready for diagnosis? In the decade since Enron collapsed, we have seen too many executives who would rather change their doctor and ignore the bad news than cure the disease. Eventually, however, the bad news always found these executives, and the outcome, for them and their companies, was far worse.

The Media Tenor Reputation Matrix

(Models)