



# **Financial Communications Under a Microscope: Handling a Crisis**

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IABC  
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# Communicating in a Financial Crisis – Why Does It Matter?

- Every crisis has an impact
  - Overnight it can unravel the reputation of a brand and a company which was built over years and with hundreds of millions of dollars
  - Can impact a corporate reputation
  - Short-term and potentially long-term valuation
  - It can make it more difficult to raise capital
  - It can cost money
  - It can impact your reputation
- The incidence of crisis is rising and fewer are going unreported; at some point in your professional life you will be involved in a crisis with financial dimensions
- 70% of CEOs report time spent on external communications with stakeholders is on the increase

# Anatomy of a Crisis

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- **Suddenness**– it usually comes quickly and unexpectedly
- **Uncertainty** – it deals with uncertainties and unknowns
- **Time Compressions** – decisions often need to be made quickly
- **Financial Impact** – more often than not, there is a financial impact

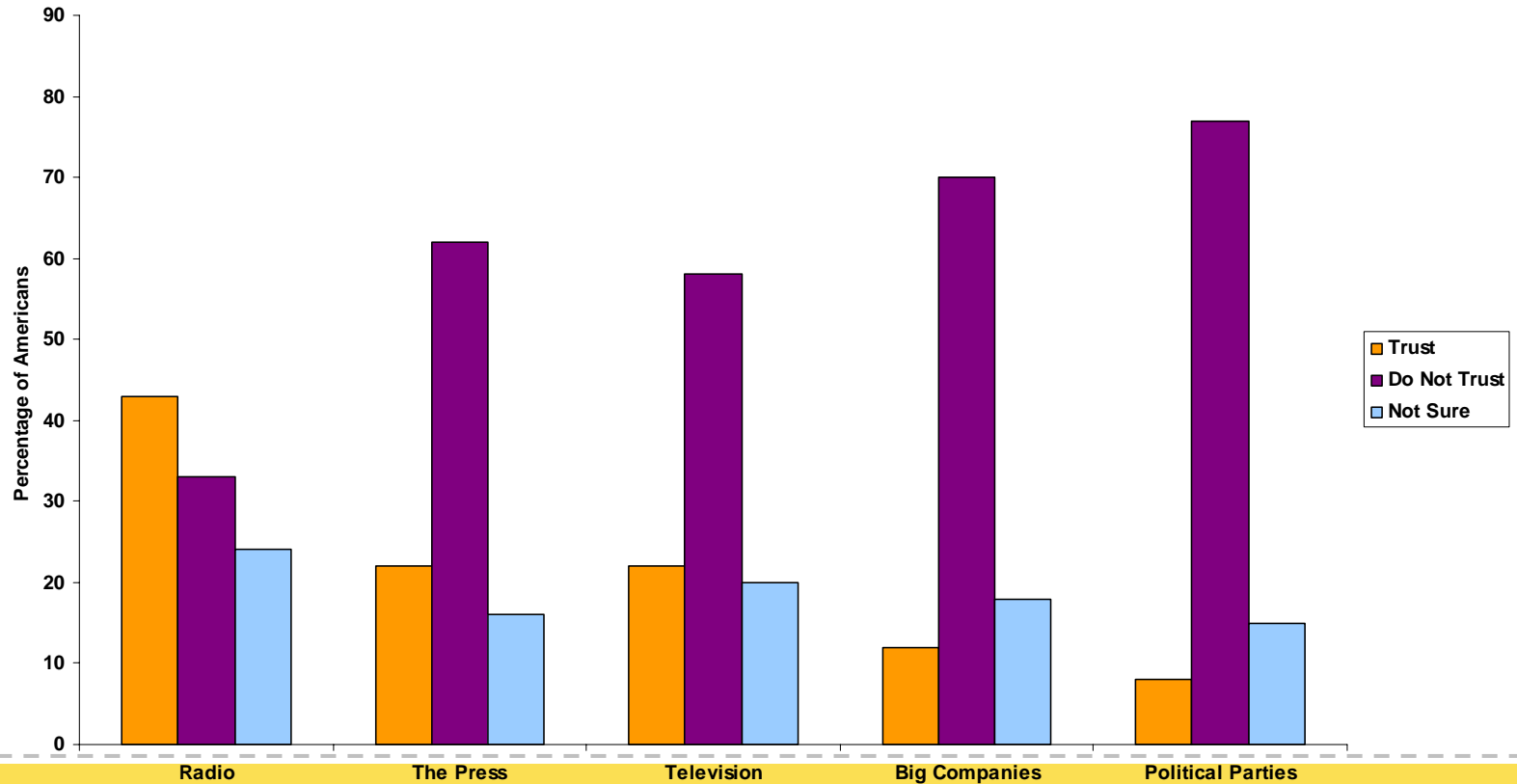
# In a Crisis, Who Do You Believe?

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- **Corporate Leaders?**
- **Government Officials?**
- **Political Leaders?**
- **The Broadcast Media?**
- **Print Media?**
- **Financial Analysts?**
- **The Internet?**
- **The Academic Community?**

# Trust is Waning Everywhere, But the Media Still Comes Out on Top

Americans' Level of Trust in Important Institutions (Harris Poll: January 2005)



# The Media Matters

## The Media Management Standard

**In a crisis.... “being successful at what you do means successfully controlling the media. Failing to control the media is the worst kind of failure – it’s the ultimate loss of control. ...There are fewer and fewer ways to reverse the stigma of bad press (a checkers speech is no longer possible) ... in fact bad press becomes, as much as anything, the very subject of the increasing tsunami of bad press against you.”**

**-- Michael Wolff, former New York magazine  
Columnist**

# Here's Why - Forces at Work

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- **24/7 nature of the media contributes to:**
  - **Inescapability of a story**
  - **Inability of an organization to respond to the sheer amount of coverage**
- **Cable/Media/Internet Wars**
  - **Ex: Competition between CNN and Fox news**
  - **Winning the ratings wars by running hard with one big story**
- **“Flooding the Zone”**
  - **Non-experts covering a complicated story**
- **New news can turn an old story in a breaking story**

# What Frustrates the Media

- Reporters from top business media outlets had strong opinions about what works and what doesn't
  - AP
  - Bloomberg
  - Dow Jones
  - BusinessWeek
  - Forbes
  - Reuters

# The Media Perspective

## Here's What Doesn't Work

- Lack of senior people available to comment, even when listed as a contact
- Lack of knowledge of people who *are* available to comment
- Having no comment
- "Having no information forces us to project what's going on: usually the worst-case scenario."
- "If a company appears uncommunicative, we have no choice but to make things one-sided. Also, it's then easy to cast them as the bad guy."
- Attempting to soldier ahead despite the bad news (pretend like nothing's wrong, paint too rosy of a picture)
- "For God's sake, the 'circle-the-wagons-and-it'll-all-go-away' mentality doesn't WORK anymore!"

# The Media Perspective

## Here's What Doesn't Work

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- Burying the most important information in the press release  
"We're just going to find it anyway - no need for that."
- Omitting essential details
- "That make us chase them to get the full story. We're going to get the story anyway, so it's best to be honest and upfront."
- Press release-ease
- "Being vague about layoffs or expected charges, hiding behind accounting or regulatory language."
- Not returning a phone call or stalling on providing details
- "This will only lead to that being stated in the story... and forcing us to call analysts or investors to flesh out a story, often leading to the kind of speculation executives didn't want to begin with."

# The Media Perspective

## Here's What Doesn't Work

From an AP Reporter ...

- The most recent and egregious worst-case example was Morgan Stanley's response to their critics earlier this year.
- The company felt that a handful of dissidents wasn't a problem.
- They didn't respond for weeks.
- When they did, it was at an investor conference with limited press availability.
- At the conference, the CEO merely reiterated what he'd been saying for months.
- So the critics continued carping, and the media put all the company's actions under a microscope.
- The story escalated to the point where, eventually, Phil Purcell resigned/was axed/retired just to end the distractions.
- And Phil even admitted he should've paid more attention to the press.

# The Media Perspective

## Here's What Doesn't Work

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From a Forbes Reporter...

- Company put out an earnings warning
- CEO wasn't available
- Called PR firm, who called the CEO with reporter still on the line
- CEO complained about how he was about to go on vacation before he knew the reporter was on the line, too
- Bad move on the PR firm and co. - pr firm and co. should have communicated earlier and come up with a game plan

From a Dow Jones Reporter ...

- MWD wouldn't respond to the Group of 8 newspaper ads, etc.
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# The Media Perspective

## Here's What Works Best

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- Honest, clear press releases
  - Informed, educated, upfront answers from communications people and executives
  - Work with the journalist to address his/her issues and questions
  - Proactive responses
  - Be quick - ahead of the news (before someone digs it up instead)
  - Have a crisis-management plan in place
    - "This will go a long way toward silencing critics and getting the media off your back"
  - Have a prepared statement
  - Be open to comment
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# The Media Perspective

## Here's What Works Best

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- From the Forbes Reporter ...
- Spoke to chairman of co. of fired CEO, who was willing to talk on the record.
- Chairman gave the reporter the cell # of the fired CEO, who also commented.
- When people are open to comment, it helps us evaluate realistically what's going on.
- From the AP Reporter ....
- Sadly, no examples spring to mind.



**FINANCIAL INDUSTRY  
DYNAMICS HAVE CHANGED**

# What is different?

- Institutional investors no longer look for the easy, short-term pick but want solid, long-term growth.
- More and more investors are looking abroad, where there are better returns and fewer 'scandals.'
- Individual investors are in it for the long-term. Fewer day-traders are out there trying to make a quick buck.
- Investors are more careful, deliberate in their choices and feel they must choose wisely in case they need to weather a storm.
- All investors seem to be less focused on industries, and more focused on individual stocks. They largely shy away from stocks most directly affected by rising oil prices, rising interest rates and slower economic growth.

# Trust is Key

- Overall, people are less trusting and want more transparency in the companies in which they invest as well as the firms they choose to advise them on those investments. There is clearly a higher premium placed on trust.

# The Analyst Perspective

## Here's What Doesn't Work

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- It is very difficult to get in touch with the IR people
- It is difficult to get access to senior management and the people who are making the decisions
- The company manipulates their statements to hide the true economics of the business
- Companies don't make it clear what they are willing to discuss and what they aren't. Once you know this, you at least have a sense of how to approach the analysis
- Releasing information on a Friday night isn't going to make is less visible to the analyst community.

# The Analyst Perspective

## Here's What Works Best

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- Access to the management team
- Management willingness to discuss their business, position in the industry, competitive dynamics
- Returning phone calls
- Spending time discussing the business
- Using a variety of forums in which investors can ask questions and talk in depth about the business
  - one-on-ones
  - analyst meetings
  - investor days
- Easy access to information on the Internet



# **Government Action Raises Questions**

# Spitzer Takes Surprise Action

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**SEPTEMBER 3, 2003**

- **On September 3, 2003, the Attorney General of New York, Eliot Spitzer, held a press conference announcing an investigation into illegal trading schemes in the mutual fund industry**
- **Bank of America did not know they were going to be one of the companies investigated and a central focus of Spitzer's press conference**



# Media Responds in a Vacuum

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**SEPTEMBER 4, 2003**

- **September 4, 2003: The *Wall Street Journal* runs a feature story on the mutual fund investigation with considerable attention to Bank of America's activities resulting in unfavorable coverage for the bank**
- **At this time, Ken Lewis, the CEO of Bank of America, was on vacation. Mr. Lewis was advised to return immediately**



**THE WALL STREET JOURNAL.**

# Media Turns Negative

**SEPTEMBER 4, 2003**

- ***American Banker* - “B of A Takes Hardest Hit In Spitzer’s Latest Salvo; AG says hedge fund’s favored status came at cost to individuals”**
- ***Wall Street Journal* – “Spitzer Alleges Mutual Funds Allowed Fraudulent Trading”**
- ***Reuters* – “Bank of America Probe a Challenge for CEO Lewis”**

# CEO Turns the Story

**SEPTEMBER 4, 2003**

- **September 4, 2003: Bank of America gives an exclusive interview with Ken Lewis to the *Wall Street Journal*. Mr. Lewis underscores the seriousness of the situation and pledges to take swift action, forming an internal committee “working around the clock” to investigate Spitzer’s allegation. The article is favorable to the bank and highlights its history of taking a tough stance against conflicts of interest.**
- **Of the companies investigated, Mr. Lewis was the first CEO to make public statements about the allegation and take clear ownership of the crisis; these actions set the tone for subsequent media coverage of the bank and its involvement in the mutual fund scandal.**

# CEO Turns the Story

SEPTEMBER 5, 2003

- September 5, 2003: Bank of America holds a conference call with seven select reporters from top tier financial media. Reflects strategic decision to brief specific reporters who have in-depth understanding of the mutual fund industry and the fraud allegations.
- Messages communicated during the call were consistent with Mr. Lewis' statements to the *Wall Street Journal*.

banking  
technology

B U S I N E S S  
FINANCE

GLOBAL  
FINANCE

AMERICAN BANKER

usBanker  
Beyond Business as Usual

Treasury  
& RISK MANAGEMENT

# Balanced Story Emerges

**SEPTEMBER 6, 2003**

- **September 6, 2003: Articles resulting from conference call yield balanced coverage portraying Bank of America as serious and responsive to the mutual fund investigation. This media coverage spreads to dailies across America and sets the coverage tone for the duration of the inquiry.**

# Balanced Story Emerges

SEPTEMBER 4, 2003

- *Associated Press* (Considerable pick-up by regional dailies) – “B of A CEO: Punishment For Workers Involved in Mutual Fund Problems”
- *Charlotte Observer* – “B of A Looks Inward Amid Allegations; CEO Will Punish Any Workers Involved in Wrongdoing”

**Charlotte.com**  
The Charlotte Observer

**AP** Associated Press

# Communication is Ongoing, But Focused

**SEPTEMBER 10, 2003**

- **Ken Lewis communicates to a select group of reporters that:**
  - **The bank has zero tolerance for fraudulent behavior**
  - **Several employees had been dismissed**
  - **Internally, the inquiry was moving quickly with extensive fact gathering. Third parties brought in to ensure all investigative activities were transparent to the public**
- **Key executives and agency on call to respond to all inquiries. Media provided ongoing background briefings on the inquiry to educate them on the intricacies of the investigation**



**Bank of America.**





# Media Turns Positive

## SEPTEMBER 2003

- **September 11 / 12, 2003: Wave of favorable stories runs, focusing on Bank of America's responsiveness to the issue and the actions taken.**
- **Late September 2003: Outreach to personal finance magazines stressing continuing commitment to mutual fund business.**

# News Headlines: Bank of America / Mutual Fund Inquiry

SEPTEMBER 11 / 12, 2003

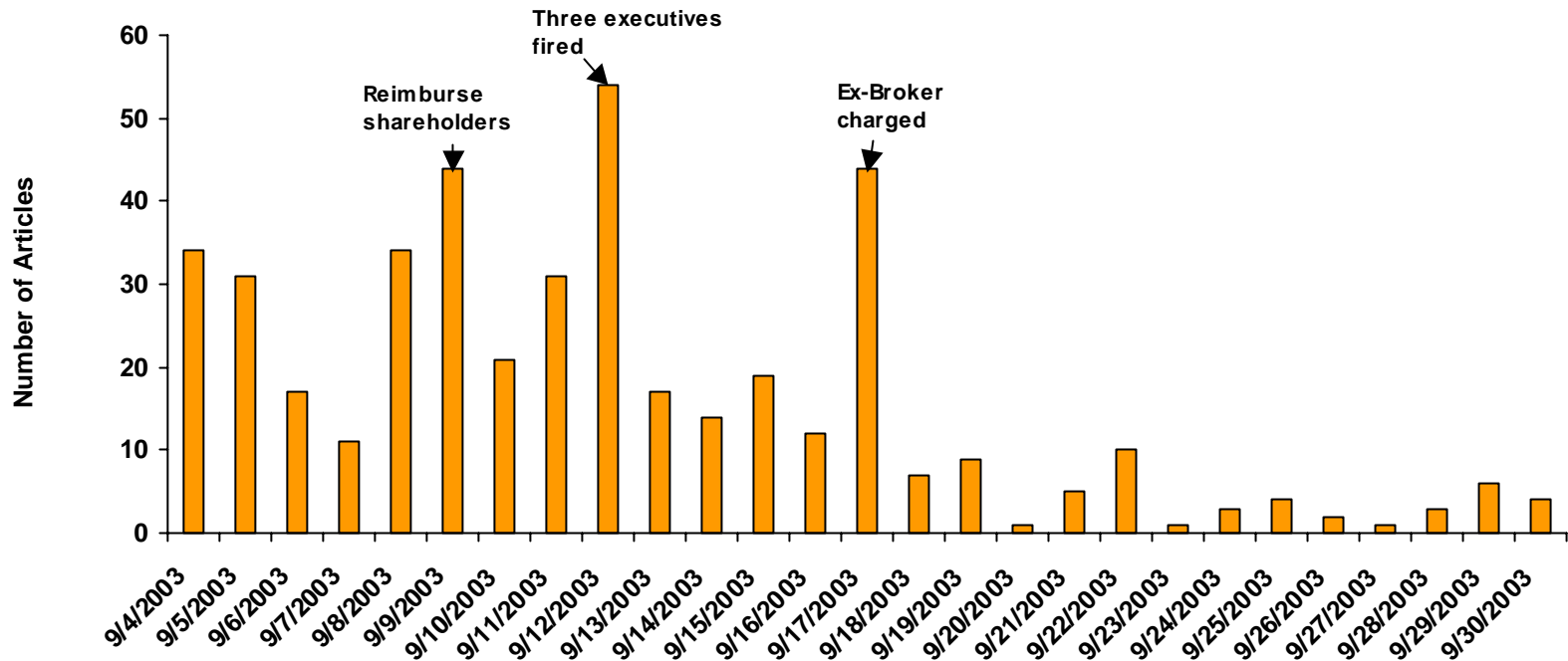
- ***CBS Marketwatch*** – “Bank of America Takes Action in Fund Fallout”
- ***American Banker*** – “B of A Following Through on Pledge to Take Fast Action”
- ***Financial Times*** – “Bank of America Sacks Staff With Spitzer Link”

Bank of America.



# Days of Heaviest Coverage Volume of the Inquiry Reported News Issued by Bank of America

Bank of America / Mutual Fund Inquiry Media Coverage Volume:  
September 4, 2003 - September 30, 2003 (day-by-day)



# **Crisis is Confined– No New Story To Tell**

**OCTOBER 2003**

- **Bank of America pledges to set up a restitution fund for holders of its funds harmed by fraudulent activities, and to reimburse holders of third-party mutual funds hurt under certain circumstances.**



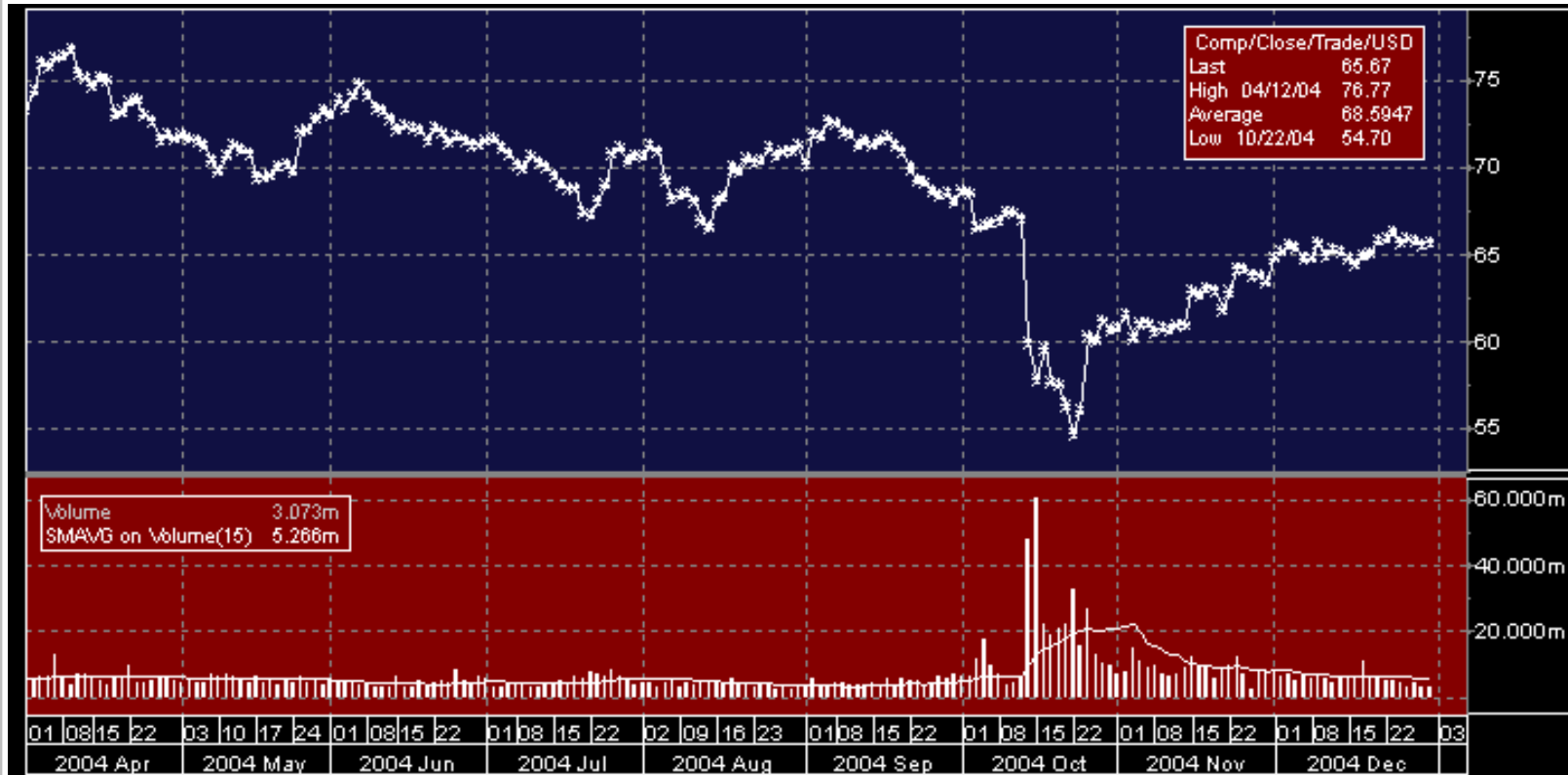
# AIG

2004

- **April: AIG's stock becomes a Dow component**
- **September: AIG announces SEC notification of Wells Notice regarding PNC Financial Services transactions, Justice Dept. notification; believes actions in the matter would be "unwarranted"**
- **October:**
  - **SEC, Justice call releases "misleading"; AIG continues to view actions as "unwarranted"**
  - **NY AG Spitzer charges AIG with bid-rigging, collusion**
  - **AIG announces intention to settle with DOJ, SEC**
- **November: CEO Hank Greenberg investigated for price manipulation in 2001; AIG agrees to settlement in PNC Financial Services accounting fraud case**

# AIG

Stock plummets in immediate wake of news, denials, and settlement, ends up down 10% from April-December



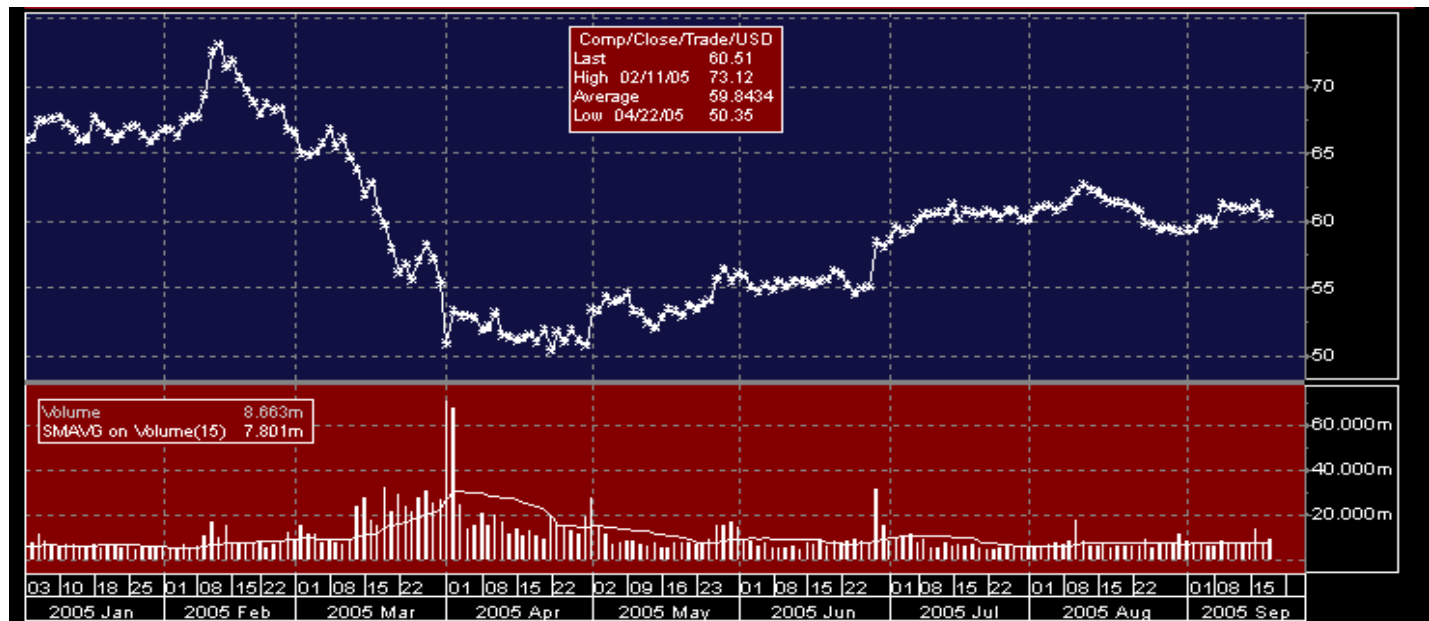
# AIG

## 2005

- **February: AIG posts record profit, AIG/Berkshire-Hathaway deal under scrutiny. Company agrees to cooperate**
- **March: Greenberg retires. SEC subpoenas up to 12 AIG executives. Company admits to broad range of improper accounting that could cut net worth by nearly \$1.8B**
- **April: Board sends letter to shareholders about actions with regard to investigations. Company announces corporate governance initiatives.**
- **May: AIG announces plan to restate results due to accounting errors**

# AIG

**Stock, briefly on the rise in February, drops drastically in March as company admits wrongdoing; begins slow recovery under new leadership**



# MARSH & MCLENNAN COMPANIES

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## OCTOBER 2004

- **New York Attorney General Eliot Spitzer charges Marsh & McLennan with cheating corporate clients by rigging bids and collecting huge fees from major insurance companies for throwing business their way. The civil complaint names AIG, Ace Ltd., Hartford Financial Services Group and Munich-American Risk Partners as participants with Marsh in paying improper fees and bid rigging.**
  - **Oct. 14, Marsh issues press release announcing cooperation, independent review**
  - **Oct. 15, Marsh suspends MSAs, names new CEO at Marsh Inc.**
  - **Oct. 25, Jeffrey W. Greenberg resigns as Chairman, CEO; Michael G. Cherkasky named President, CEO**
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# MARSH & MCLENNAN COMPANIES

**June 2005**

- **Company completes “strategic review” of all operations, announces no changes planned**

**September 2005**

- **8 former Marsh & McLennan employees indicted over bid-rigging, company issues announcement saying action is “about the past. MMC today is focused on the future.”**



# B of A, AIG, MMC

Bank of America's stock remained steady, the others have yet to recover ...





# **BANKRUPTCY IN A TROUBLED INDUSTRY**

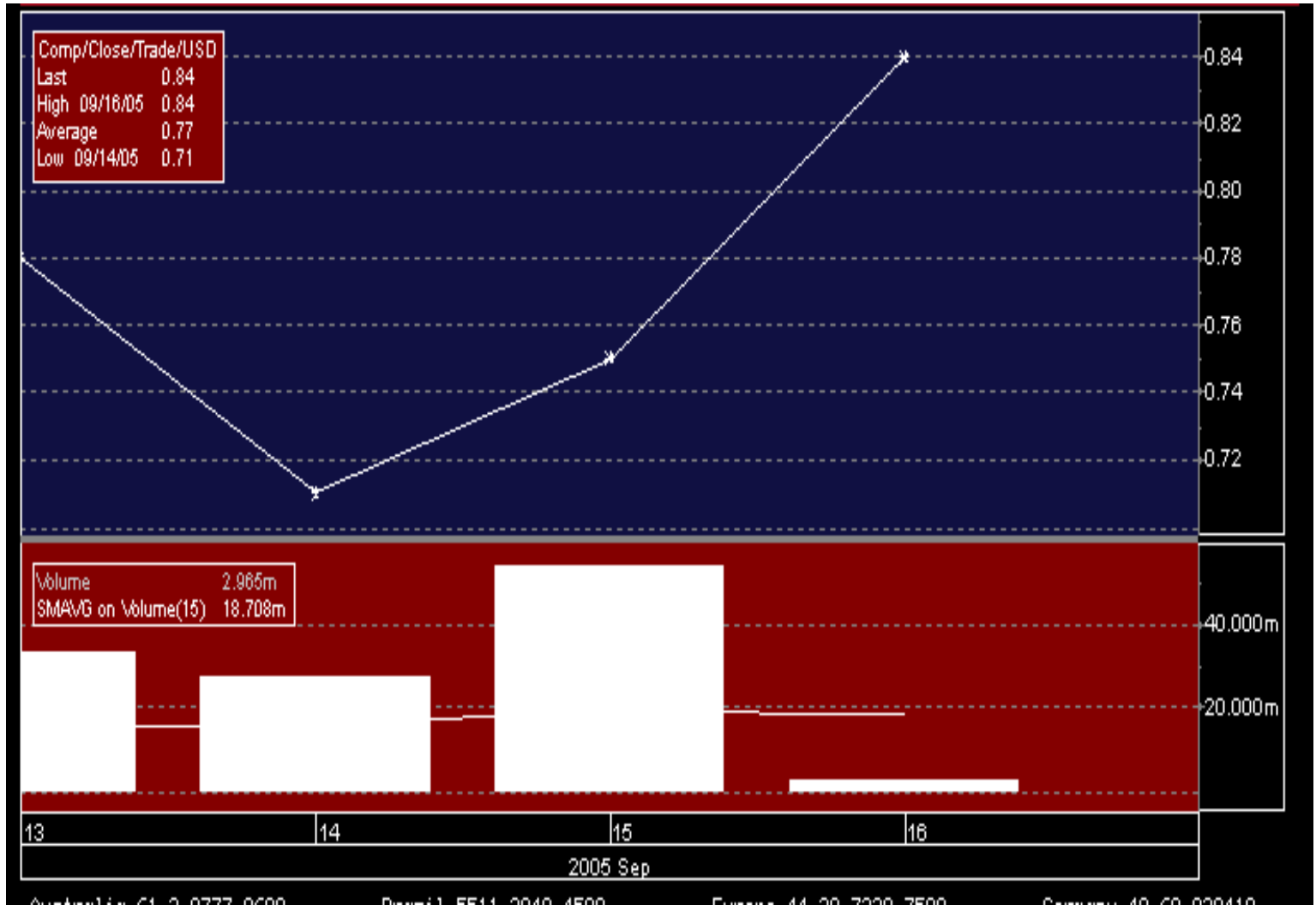
# Delta Gets In Front of The Issue

- Sept 14 2005
  - Filed for bankruptcy
  - There was real talk of a filing for both airlines at least as far back as March (Fuel prices cloud future for airlines – Philadelphia Inquirer, 3/20)
- Had everything in place to communicate in press release and provided tangible details –
  - DIP financing (\$1.7B)
  - \$350M secured financing
  - Plan to “simplify and streamline” fleet providing actual figures:
    - remove 4 aircraft types by 2006-end, 7 to remain;
    - boost international capacity;
    - rightsize hubs;
    - deploy smaller aircraft on many routes

# Delta Gets In Front of The Issue

- Provides timetable for further communication to employees
- Addresses pension plan issues and announces that it will not make expected funding contributions
- Sets up “restructuring” section on website with detailed information and links to more
- Stock took an initial hit, closed up 19%

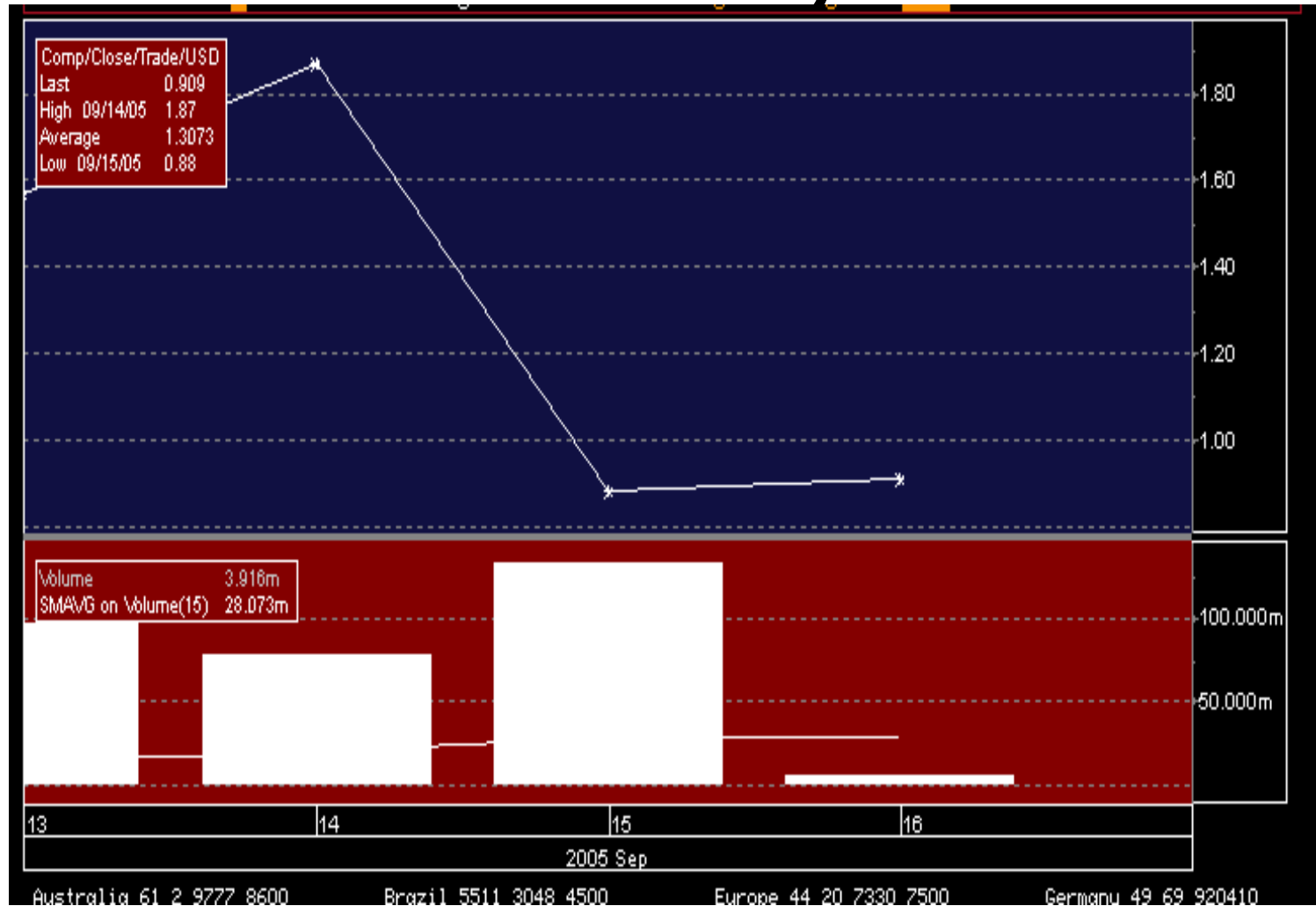
# DELTA STOCK UP 19%



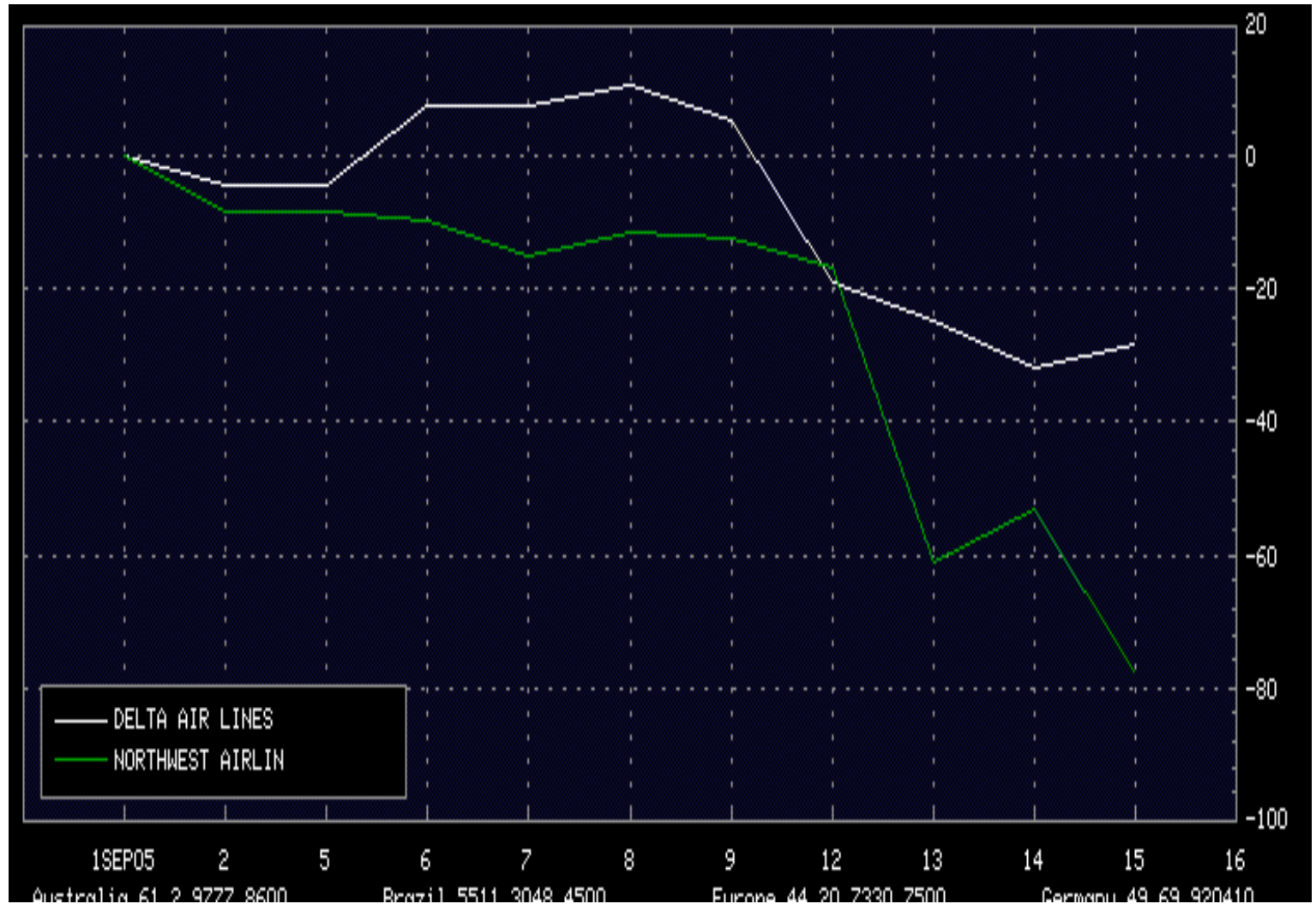
# Northwest Handles It Differently

- Filed for bankruptcy Sept. 14 *after* Delta, though both were expected that day
- Press release provides little concrete, relevant financial information:
- Cash and short-term investments balance of \$1.5B
- Sees \$3.3B fuel bill
- Must contribute \$3.3B to pension plan
- Restructuring section on website
- Stock fell 9% percent that day and has stayed down

# Northwest Stock Falls 9% With No Recovery



# Northwest vs Delta



# Summary of Crisis Communications Strategy

- **Establish ownership of the crisis immediately**
- **Demonstrate responsiveness to all allegations**
- **Make senior management visible at an early stage to ensure a consistent voice in the coverage as it unfolds**
- **Although senior management visibility is crucial, be tactical about communications. Speak to the appropriate reporters in beginning stages and allow coverage to percolate from their initial stories**
- **Communicate with a sense of urgency the steps to be taken to address the situation**