

talking points

ALSO INSIDE

Opinion 5
Top 10 mistakes companies make in Washington

International mood 6
Increased skepticism in Europe and Asia

Q&A 7
Daniel Cardinali, president of Communities in Schools, explains how to make public-private partnerships work

By the numbers 8
Public scorn for business leaders

Surviving Washington's scrutiny:
The combination of increased government involvement, populist anger, unemployment worries and an increasingly sensationalist media has altered the business environment. Playing defense isn't enough: companies need to take proactive steps to build reputations and alliances that will last. **CONTINUED ON PAGE 2 >>**



Surviving Washington's scrutiny

<< CONTINUED FROM PAGE 1

The image is burned into the collective memory of corporate America: outraged Members of Congress fulminating against the auto industry CEOs who took company jets to Washington even as they sought public assistance to stave off bankruptcy. But the truth is that in most companies, the decision would have been routine – corporate jets are how CEOs travel. What the auto companies missed was the new truth of Washington: nothing is routine any longer.



The auto sector has plenty of company. Businesses of all kinds are discovering that today's "business as usual" – everything from giving out free pharmaceutical samples to physicians to hosting receptions rewarding top salespeople – can quickly morph into tomorrow's front-page scandal. Washington's focus on issues that weren't previously within its purview shows no sign of abating. Just recently, a Congressional committee demanded that virtually every health insurance company disclose compensation details for every executive making \$500,000 or more, along with details of every off-site meeting held in the previous two years. The Department of Justice's Anti-Trust Division announced that it would hold joint public hearings with the Agriculture Department in rural communities to assess the community impact of agribusiness mergers, a first for the agency.

One lesson is clear: complacency can be as dangerous as carelessness when it comes to corporate reputation. The risk is especially high for the financial services industry and other recipients of government assistance. But with the unemployment rate at a 26-year peak and likely to remain high even as the economy shows tentative signs of recovery, Washington is sensitive to any business decisions that can be perceived as elitist or detrimental to the public good. Any company with a significant public profile or government contracts can find itself the pariah of the week whenever its business practices strike someone as unfair.

Constant self-analysis, diligent attention to public trends and awareness of the need

to reexamine basic assumptions are crucial to avoid winding up in the crosshairs. Companies must evaluate spending decisions with an eye to appearances as well as cost effectiveness.

But defensive action alone won't suffice. Corporate reputations in the nation's Democrat-dominated capital must be built on more than strong balance sheets and quality products and services. Companies need to expend more effort on enhancing their reputations and relationships with influential audiences in Washington in order to build a reserve of political capital. Key influencers are looking for a willingness to think beyond the bottom line, strong corporate citizenship, solution-oriented advocacy on public policy issues, and well-developed relationships with people, issues and organizations that matter to them.

Corporate Citizenship and Issues Advocacy

Labor, environmental, and consumer groups have a more sympathetic ear in Washington these days, requiring careful management of related issues. Conflicts can't always be avoided, of course, and in many cases, actions that draw criticism are inherent to doing business successfully. But conveying a sense of fairness and a concern about the impact of operational decisions can go a long way.

Decisions that will draw criticism, such as outsourcing a job function, building a facility in an unpopular location, or marketing a controversial product, should be made carefully and with an eye toward managing any possible negative fallout. Criticism can

often be blunted simply by being transparent. Thoughtful outreach can also lead to amicable negotiations and resolution. Even when an accommodation is not possible, a sincere effort to reach agreement can change the perceptions of political influencers.

Conflicts can't always be avoided, of course, and in many cases, actions that draw criticism are inherent to doing business successfully. But conveying a sense of fairness and a concern about the impact of operational decisions can go a long way.

One Brunswick client, for example, faced a class action law suit accusing the company of poisoning the groundwater in a small community. While many companies would have turned their backs on engagement, this company opened a local outreach office, held town hall and one-on-one meetings, funded infrastructure improvements, and carried out a remediation of the soil on all the properties that needed it. This activity, while not ending the litigation, did earn the support of much of the community as well as local government officials, calming the situation and reducing the risk of further punitive actions.

With a Democratic Congress and Administration in power, Washington will continue to see more legislation that

seeks a greater role for government. Many businesses, and the organizations that represent them, instinctively take a "just say no" approach to such initiatives. Sometimes that is the appropriate response, but it can come at a cost for companies that want to maintain good relationships with key lawmakers and regulators.

It is possible for companies or industry groups to boost their standing without compromising their interests through a more nuanced approach to the legislative process. In many cases, that means embracing the goal of legislation and working with its proponents to devise more workable ways of achieving shared ends. Earlier this year, for example, financial services companies facing the prospect of legislation authorizing "cram downs" – allowing bankruptcy judges to unilaterally decrease the valuation of mortgage loans – worked closely with Democrats in Congress to shape legislation that eased the impact of foreclosures without going as far as the original proposal.

Most issues can be broken down into a series of questions, some of which businesses and legislators can agree on. Sincere engagement in trying to solve problems and find common ground on public policy can pay major dividends, even when the end result is to agree to disagree.

Relationship Building

Finally, companies need to do a better job of understanding the larger opportunity presented by philanthropic and community commitments that are too often viewed as an afterthought rather than a meaningful tool for engagement. >>

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In many corporate headquarters, corporate responsibility, charitable contributions and partnerships are treated as incidental to the business. Donations might be made to please an important client, or fulfill a senior executive's personal commitment. The company may see supporting community groups as an important element of employee morale boosting, or may choose partnerships based on marketing concerns. Too frequently, there is no broader strategic direction of a function that should be an important component of a company's efforts to control its own reputation.

A strategic approach starts with thinking seriously about the issues that align with the company's work and goals. It takes into account such questions as the desired image of the company, what matters most to its key audiences, what capabilities its employees possess to make an impact beyond simple financial contributions, and which organizations are a good cultural fit with the company's own.

Most importantly, strategic engagement doesn't end with a decision to support a cause through a single visible event. A well thought-out plan to stay involved at as deep a level as possible creates the ability to leverage that involvement for maximum impact.

Similarly, businesses should look at the full policy agendas of the lawmakers with whom they seek to build relationships, rather than only focusing on issues that directly affect their own industries. In many cases, it's possible for companies to strengthen their positions on contentious issues by making

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**Mohamed A. El-Erian
CEO & co-CIO of PIMCO**

an effort to work with their opponents in areas where they can find common ground.

A lasting change?

Some observers suggest that the current level of Washington's scrutiny of the business community is a passing fad driven by politics and the financial crisis.

Given the depths of the government's financial involvement in key segments of the economy, however, it is hard to imagine members of Congress walking away from more aggressive oversight. As long as economic recovery remains the highest priority for voters, Congressional scrutiny will endure, driven by new legislation and greater government involvement in the health care and energy sectors, among others.

As Mohamed A. El-Erian, CEO of PIMCO, the world's largest bond fund, recently told *The Washington Post*, “In the old days,

Washington was refereeing from the sideline. In the new world we're going toward, not only is Washington refereeing from the field, but it is also in some respects a player as well... And that changes the dynamics significantly.” PIMCO now factors potential U.S. policy changes into investment analysis alongside traditional financial considerations.

The changing media universe adds another dimension, as mainstream news outlets adopt a more populist and opinion-driven tone to their business coverage, as social media provides new outlets for disgruntled employees and other constituents, and as the ubiquity of online searches ensures that negative stories – no matter how small or insignificant – never completely fade away.

Building relationships and reputations that can weather the increasing storms of scrutiny in Washington will be increasingly important to companies and industries as they look to further their policy goals and minimize the impact of reforms and regulations on their businesses.



Brunswick viewpoint

Top ten mistakes companies make in Washington

Every industry wants to influence the policy debate in the United States, especially in an era of activist government. Yet too many companies approach the nation's capital without a full appreciation of how to make an impact on members of Congress and regulators. Reaching policymakers takes more than personal contacts with them – all the more so during a downturn, when the views of constituents outside of Washington increasingly influence decisions inside the beltway. Here's our list of the most common mistakes companies make when trying to affect policy:

1 **Not knowing what they don't know**

Washington is its own world. Companies need to know which voices drive policymakers' decisions. The capital encompasses its own media, trade associations and business organizations, think tanks of every ideological stripe, and advocacy groups, among others. All the key players need to be identified, especially the unfamiliar ones.

2 **Thinking only about risks, not opportunities**

Companies often view government only in a negative light, but smart companies look for ways to align their goals with public policy priorities. Seeking out opportunities, especially ones that mesh with the priorities of key legislators, can benefit both reputation and revenue.

3 **Believing that lobbyists' relationships are enough**

New restrictions on lobbyists mean that top lobbyists, even former members of Congress, will only get a company so far. Supplementing direct lobbying by working through other influential groups and individuals who have policymakers' ears can broaden support for a company's positions.

4 **Fighting losing battles**

Strategy must be grounded in political reality, but companies often squander money and credibility on impossible crusades. Some policy goals may never be achieved, but looking for alternate solutions and silver linings can bring about a positive outcome – even if it's not the ideal one.

5 **Paying attention only when necessary**

Sooner or later, everyone has a Washington issue. Strong, diverse ties in Washington during good times make it easier to mitigate challenges. Those who've spent years investing in relationships and capabilities are better positioned to handle crises than those who haven't.

6 **Not getting the most out of trade association memberships**

A trade association membership is more valuable when companies engage. Vocal members can sway association priorities. Getting staff involved and participating in committees will help build relationships and establish credibility with association officials and other members.

7 **Thinking trade associations will do everything for them**

Industry groups have to balance members' priorities as well as their own internal dynamics. Virtually all companies will disagree with a position their association takes at some point. Smart companies know that associations are not their only advocates.

8 **Thinking policymakers care about their business**

Profitability isn't always a policy priority. Policymakers have to understand why your business matters to their constituents. Companies need to lay out how their business aligns with public priorities, emphasizing job creation, valuable services, or some other broad public good.

9 **Thinking policymakers even understand their business**

It's dangerous to assume people on Capitol Hill understand basic market or operational dynamics. Policymakers need a clear explanation of what a company does and how it is affected by policy.

10 **Forgetting to leverage their presence in Members' home districts**

Members of Congress always want good relationships with significant employers in their districts. Companies should be sure legislators know they're part of their constituency, and use that to build relationships.



International view

Europe and Asia also require a thoughtful communications approach that takes into account heightened sensitivities over issues such as compensation, job preservation, and contributions to the broader community.

Europe

Effective communications about remuneration, job losses and restructuring are crucial for corporate reputation in Europe during turbulent economic times.

Above all, companies cannot be seen to be squeezing the life out of consumers and employees to satisfy investors' demands for efficiency savings.

The July 2009 closure of the Vestas wind turbine manufacturing plant on the Isle of Wight is a case in point. With the EU promoting renewable energy and the UK aiming to become a world leader in wind power, Vestas' decision to close a local manufacturing facility while expanding in the U.S. and Asia was incomprehensible to unions and workers. The company's communications with government stakeholders and, crucially, employees were poorly thought out. Demonstrators occupied the plant in protest, generating massive negative media coverage.

Executive compensation stirs anger as well. When Sir Fred Goodwin was forced to step down from the Royal Bank of Scotland, just before the British bank announced the UK's largest-ever corporate loss and a takeover by rival Lloyds TSB, his pension was set at £16m, giving him some £700,000 (\$1.1million) a year. Although Goodwin was arguably contractually entitled to the pension, it was a slap in the face for a public that had been forced to bail out the banking sector. The British government joined the criticism, with one Minister calling the award indefensible in "the court of public opinion."

In the EU, executive remuneration and job losses for ordinary workers will remain highly sensitive issues until the economy fully rebounds, and any related communications mistakes will make it harder for companies to rebuild their reputations down the road.

Asia

Corporate reputation has become increasingly critical to long-term business success in China. Firms that invest time and resources building their reputation and proactively engaging with key communities here are finding that a strong corporate reputation is an invaluable investment protection tool, especially during times of uncertainty.

Every year, government, media, and society increase their expectation that companies justify the benefit they bring to the local economy *and* to the local community. In a growing number of cases, authorities have required companies to justify opaque practices that were previously deemed acceptable or beyond scrutiny. Under China's fourth generation of leaders, the government has been clear that foreign investment will no longer be judged by scale, but by quality.

This environment demands proactive engagement – including in the public policy debate – with key thought leaders, with research institutes and academia, and with key media. Critically, communications with these audiences must be based on carefully considered substance, be consistent, and be coordinated. Firms must identify ways in which they can demonstrate long-term benefit not just to society in China, but in the way they conduct their entire China operations.

A strong corporate reputation does not mean a firm is impervious to crises or operational challenges. Firms that encounter questionable practices in the supply chain, enter disputes with business partners, or identify issues that undermine consumer or worker safety must not lose sight of their global corporate values or ethical position just because their China operations are far from their global headquarters. Finally, it is important to recognize that foreign firms are – fairly or unfairly – held to a higher standard by public opinion. Firms must operate accordingly with the knowledge that the importance of corporate reputation, and the level of public and government scrutiny, will continue to rise.

Q&A

Daniel J. Cardinali is the president of Communities In Schools, a national nonprofit dedicated to student achievement and dropout prevention. Founded in 1977, Communities In Schools is active in 26 states and the District of Columbia, serving more than 1.3 million K-12 students each year. In this interview, he discusses the mutual benefits of public-private partnerships.



What makes a partnership work?

In my experience, public-private partnerships only work when both organizations come to the table as peers and partners. The best corporate-nonprofit partnerships have a clarity of purpose about what needs to be done; the outcomes must be designed to benefit the objectives of both businesses. Although noble desires drive the partnership at the outset, nobility at some point must give way to practicality. There has to be a go/no-go moment where each side is brutally honest about what they need from a partnership. Very rarely are there any purely altruistic arrangements. That's neither good nor bad. It's just a fact of business. Both partners have to have something to contribute and something to gain.

What are the most common mistakes made when developing a public-private partnership?

In the nonprofit sector, we call it "mission drift." The excitement of forging a new relationship or potentially receiving a substantial donation can compel many nonprofits to bend in directions that aren't strategic. In the end, it will end up costing both organizations more than they could have imagined. Sometimes a discussion might begin in one part of the business, but then morphs into a larger corporate strategy that creates misalignment. For example, a corporate partner may want to co-brand a

product that targets their consumers who are also part of the communities we serve. If, through a series of mutations, that discussion turned into an arrangement where we were responsible for shipping free products out of our office to a large number of shared constituents, that would be a problem. The corporation's desire to get needed products into constituents' hands is a noble goal that we support. But, all of a sudden we're in the materials and logistics business, and that's not our core competency. Nor is it a strategic use of our resources.

What can the two sides learn from each other?

The two are more alike than different, but there are still some things we can learn from each other. Corporations are often agile, and use sophisticated business tools to predict market conditions and identify areas for growth. They also tend to be more research driven. It's so much easier to plan your course when you have data that shows you what works. I also believe the nonprofit sector benefits from being close to the people we serve. It helps us to develop a passion for the work that is hard to replicate without being tied to a cause. In a perfect world, both sectors would be filled with these "passionate professionals" who are driven by a commitment to improve society, and informed by the best data and business practices.

How have you seen the nature of these relationships evolve over time?

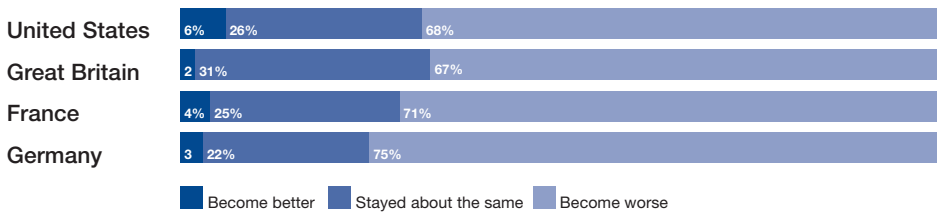
Increasingly, there is a greater level of accountability on the nonprofit side. We understand that we have to deliver results to multiple stakeholders, and it's not enough to have good intentions. We've got to have good outcomes. We know that every partnership has to help us deliver tangible, strategic results. Also, corporations are looking for well-run nonprofits. They're checking out our Form 990s and evaluating our business processes. In addition, I think nonprofits have a better sense of the value they have to offer. A solid reputation as a respected community partner is worth a lot. Just as corporations are cautious about their brand image and selective about their partners, so are nonprofits. I'd say the biggest shift is from looking at these partnerships as charity endeavors to looking at them as vehicles to effect sustainable social change that aligns with both partners' objectives.

By the numbers

As a recent *Financial Times* / Harris Poll demonstrates, the general public on both sides of the Atlantic is increasingly wary of corporations and views business leaders as unethical.

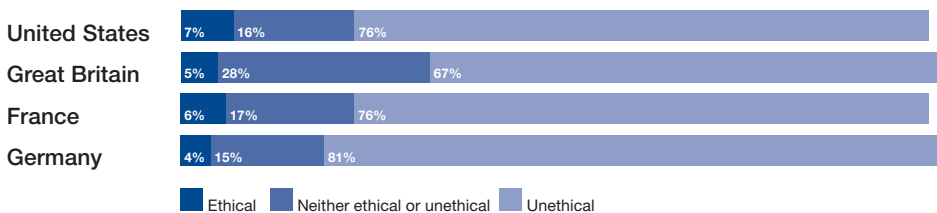
Opinions of business leaders

As a result of the current economic situation, has your opinion of business leaders in your country...?



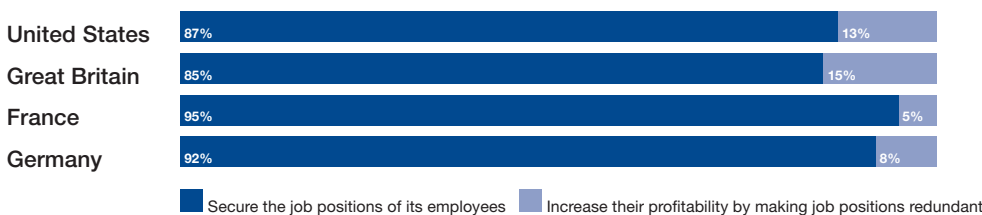
Perceived ethics

Thinking about the recent behavior of business leaders in general, would you say that it is...?



Corporate priorities: jobs or profits?

In an economic recession, which one of the following should be the highest priority for commercial companies?



The FT / Harris Poll was conducted online by Harris Interactive among a total of 6,449 adults aged 16-64 within France, Germany, Great Britain, Spain and the U.S., and adults aged 18-64 in Italy, between 25 and 31 March 2009.
 Note: Percentages may not add up to 100% due to rounding

About Brunswick Group

Brunswick Group is a leading corporate communications consultancy with offices in major financial and regulatory centers around the globe. The firm is a 22-year-old partnership with professionals who have a wide array of backgrounds, including politics, journalism, law, investment banking and accounting.

We provide strategic advice to companies and other organizations, helping them address communications challenges that may affect their valuation, reputation or ability to achieve business objectives. The firm's service offer comprises financial and corporate communications, investor relations, public affairs, internal communications and opinion research. Brunswick was ranked in first position in the global league tables for M&A communications advisers for 2008.

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