YOU MUCH INFORMATION
Tom Glocer on how Thomson Reuters is turning digital overload to its advantage

DEFINING EMERGING MARKETS
Jim O’Neill On ‘dirty’ economics and Manchester United

SOUTH AFRICA An African voice in the BRICS club

CHINA Hidden clues, five-year plans

DIAGEO Taking national drinks global

M&A IS BACK! BRUNSWICK RESEARCH
STAYING PRIVATE IS GETTING MORE PUBLIC
BE TRANSPARENT OR BE EXPOSED

PLUS DEBATING THE NEED FOR SECRETS
KEVIN SPACEY: IN THE ROUND
Brunswick is a corporate relations and communications consultancy. We provide informed advice at a senior level to businesses and other organizations around the world, helping them to address critical communications challenges that may affect their valuation, reputation or ability to achieve their ambitions.

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We’ve all become used to the statistics behind social media and to the power of global news, but it is impossible to overestimate the increase in their significance. The media penetrates ever more deeply into every aspect of our business and working lives.

The social media sparks that ignited demonstrations after the elections in Iran were fanned into flames in the Arab Spring. The banner held high in Tahrir Square, Cairo, became the rallying cry for freer speech: “Give us Facebook.” Now social media drives grassroots communication and offers instant information to the world’s media. No longer does “social” indicate trivial content: its role in shaping world events has transformed its standing from alternative to mainstream.

As for global news, major events such as the British royal wedding are seen by literally billions of people. A smiling world watched London in April – before turning its attention, hours later, to Washington, DC and Abbottabad, Pakistan, as Barack Obama made his forceful announcement about the killing of Osama Bin Laden.

In the UK, meanwhile, we saw new and traditional media – Twitter and newspapers – join forces to undermine judicial interpretation of privacy law. Their unlikely alliance followed a global WikiLeaks campaign last year that demonstrated the limitations of secrecy. There are not many places to hide any more.

These changes ensure none of us in the business of communication can lie in bed in the morning. As the great hockey player Wayne Gretzky put it, we must “skate to where the puck is going to be, not where it has been.” There is much to be done and it will be the early birds who turn this new speed, connectivity and transparency from a threat into an opportunity.

Central to this change is the power of content. We have in this edition of the Review a great contribution from Tom Glozer, who explains the importance of creating real value in content. Editors sift and contextualize data to transform it into meaningful information. The title “editor” first described the man who designed battles in Rome’s Colosseum: it is a skill still required in newsrooms around the world.

In the corporate world, press releases and filings remain important, but under the diligent eyes of the legal profession they lose much of their communication impact. Investor presentations and speeches are more dynamic, but rely on the time and skills of senior management. So it is a critical part of our role to find powerful ways of communicating not just corporate news, but also underlying thinking and motives. These are the issues that are really being tested with the new communication tools at everyone’s disposal. The corporate character, its sense of purpose and its values, are more center stage than ever before. Companies, like governments, must expect to be held to account. The difference between winners and losers will be a willingness to walk towards the big dialogues and debates – not because anyone has all the answers, but because audiences now expect everyone to engage.

We have some wonderful contributors in this issue. They range from Pravin Gordhan, Finance Minister of South Africa, who outlines the complexities of becoming a BRIC, to Jim O’Neill, who first coined that acronym. Doing business in this new world requires a range of skills, so to have perspectives from such diverse figures as Paul Walsh of Diageo and Kevin Spacey is enlightening. I hope you enjoy the Review – and if anything you read inclines you to be in touch with me or any of the Partners, please do not hesitate. Thank you for your interest.

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When giving interviews to the press, business leaders of the 21st Century should heed a Mark Twain essay from the 19th, says David Yelland

CRITICAL MOMENT
Oliver Phillips reminds us that stories with a human face are always more compelling
In January 2011, a plane from Dubai landed at Cairo Airport carrying Google executive Wael Ghonim. The 30-year-old would have looked like any other global business traveller as he made his way into the Egyptian capital.

But rather than heading to a business engagement, Ghonim had returned to his homeland to join the growing anti-government demonstrations. Just two weeks later, Hosni Mubarak, the Egyptian President of three decades, resigned. Ghonim, who was almost anonymous until then, had become the face of the revolution that had overthrown a regime and reverberated across the Middle East.

**REVOLUTION 2.0**

It all began in June 2010 when Ghonim, head of marketing for Google’s North African and Middle East business, launched a Facebook page called “We Are All Khaled Said,” in memory of an Egyptian businessman who had been a victim of police brutality in Alexandria.

The Khaled Said group mobilized young Egyptians by providing a forum through which a network of influential people – bloggers, community leaders, and the like – could come together with the disaffected masses. The Khaled Said network quietly expanded its digital footprint across websites, blogs, Twitter, YouTube, and Flickr over the course of six months. Then, on January 14 2011, a similar network successfully drove protesters to the streets in Tunisia and dissolved the Tunisian government. By January 25, online protesters in Egypt hit the streets for the first mass action against the government, coinciding with Egypt’s National Police Day. Protesters coordinated their activities through Twitter using “#Jan25” as an organizing term, and communicated to the wider world via YouTube. As one protestor tweeted, “We use Facebook to schedule the protests, Twitter to coordinate, and YouTube to tell the world.” This online effort led to a fundamental change in Egyptian society.

Ghonim himself played little part in the physical events – the demonstrations and riots. Once identified as the man behind the Facebook group, he was arrested and detained on January 27, although for many days the Egyptian authorities denied that he was in custody. After 12 days of growing clamor for information about his safety, he was released unharmed. That evening, Ghonim was interviewed on a popular TV news show. Ghonim’s raw and impassioned demeanor – he wept when shown photos of those who had...
How new media technologies have fueled protest and exposed political leaders

The internet is not the first communication technology to fuel political unrest – each generation of new media has had a similar impact. Ironically, protesters often use these platforms to call for more transparency but do so anonymously.

Pamphlets
In 1776, Thomas Paine anonymously put the case for freedom from British rule in a pamphlet entitled Common Sense. Paine presented a sound argument for American independence when the future status of the British colonies was still undecided. Relative to the population of the time, it is still the most widely circulated publication in American history.

Telegraph
In February 1848, news about the revolution in France spread across Europe via a new device called the telegraph. By March a full blown revolution broke out in Germany followed by Denmark, Hungary, Poland, Switzerland and Ireland.

Radio
At the turn of the 20th century in the US, radio inspired thousands of anonymous amateurs to express themselves over the airways. However, they faced radio silence in April 1917 when the government shut down all amateur stations as the nation entered the First World War.

Television
Throughout the 1950s and 1960s, television introduced the latest form of exposure – who can forget the sweaty lip in TV’s first presidential debates?

Newspapers
In the early 1970s, American journalists made the anonymous source famous with the release of the Pentagon Papers, followed by Watergate’s “Deep Throat.”

Fax machine
In the spring of 1989, the fax machine was China’s Twitter, connecting Chinese democracy activists with each other and the outside world. Just as important, the world was able to let the demonstrators know that it was watching. The government had blocked international TV and radio to isolate the demonstrators but overlooked fax – a relatively new technology.

Internet
2011 began with a string of protests, fueled by anonymous profiles on Facebook, Twitter and YouTube, erupting across the Middle East. Lost their lives – coupled with his vulnerability and intellect, re-ignited and re-energized a movement that had appeared to be faltering.

Commenting later on the end of Mubarak’s regime and the “virtual and leaderless” internet-led revolt that had overthrown the former leader, Ghonim remarked: “This was Revolution 2.0. No one was a hero because everyone was a hero. Everyone was doing something.”

The events in Egypt and across the Middle East vividly illustrate the fundamental shift in the way the world communicates – whether about human rights, politics, business, or consumer affairs.

A POWERFUL FORCE OF CHANGE

Don Tapscott, a business consultant and co-author of bestseller Macrowikinomics, calls the events in Egypt a “WikiRevolution,” and sees it as a taste of things to come. “People can now self-organize,” he says, “and at their fingertips they have the most powerful tool ever for finding out what’s going on, for informing others and for organizing collective responses.”

And this shift in power toward previously informal or isolated groups of like-minded people has an impact far beyond the Middle East and the fortunes of political regimes. In the UK, the pressure group UK Uncut relies heavily on social media in its campaign against the companies it accuses of not contributing enough corporation tax. Meanwhile, in the Netherlands, when news broke in March 2011 that senior executives at ING Group were to receive bonuses, a consumer campaign led by social media created enough public pressure to persuade the financial institution to waive the payments. Information that was once locked up in investor relations reports or within the business pages of traditional media is now making its way to the masses.

The issues that bring these groups of protesters together are not new, Tapscott adds, but “they were waiting for a technology revolution, the rise of a ubiquitous computational platform that was rich in media. They were waiting for a demographic revolution – the first generation of digital natives. And there’s no more powerful force to change every institution than the first generation to come...”
of age in the digital age. There’s a potential for a generational explosion that will make the 1960s look like kids’ stuff.”

A NEW AGE OF WHISTLEBLOWERS
The technology revolution has also equipped those who believe that institutional secrets should be exposed, even if the whistleblowers don’t have any specific grievances with the organization being targeted. This idea was brought into focus when WikiLeaks released multiple waves of confidential government documents and diplomatic cables, and began threatening the release of compromising e-mails from companies.

Comprised of a loose network of often anonymous contributors, WikiLeaks says that its mission is to increase transparency across the globe. This universal commitment to the full exposure of information is based on a belief that “better scrutiny leads to reduced corruption and stronger democracies in all society’s institutions, including government, corporations and other organizations.” However, critics have questioned the legitimacy of WikiLeaks as a news outlet. Some think of it as merely a content aggregator whose data has to be interpreted and reported on by traditional news outlets. Advocates of WikiLeaks have cited the US Supreme Court ruling that protected The New York Times and Washington Post when they published the Pentagon Papers, on the government’s Vietnam War policies in 1971.

The challenge that WikiLeaks presents is ever-changing, as new versions of the “leaks” concept continue to emerge. Expected to launch in full this year, OpenLeaks was created by a former WikiLeaks employee. It will not publish or verify material, but instead serve as an anonymous online portal where leakers can submit information for fact-checking, redaction or publication by organizations of their choosing, such as NGOs and unions, as well as the traditional media. Uninhibited by corporate funding and political control, people running these groups know how to organize a few key agitators who will connect and stir the passion of the disgruntled masses. And what are the traditional media doing about this? They are starting to get in on the act by creating their own mechanisms for whistleblowers. In May 2011 The Wall Street Journal launched SafeHouse, a stand-alone site for passing tips, documents and data direct to editors in the newsroom. In the UK, The Guardian and The Times are both developing their own versions.

The impact on companies at this point has not yet been felt on the bottom line, but this new age of whistleblowers has taken various institutions by surprise and has the potential to affect reputation dramatically.

THE IMPORTANCE OF TRANSPARENCY
There are several lessons that companies must learn from this growing trend of mass collaboration and influence:

- First, citizens across the globe are demanding greater and greater transparency from their governments and businesses.
- Second, to maintain and enhance their credibility, companies have to support greater transparency with better communication.
- Third, when corporations fail to provide the right information at the right time, a vacuum is created that is often filled by rumor and misinformation. Stakeholders want to hear about both good and bad news and they want it right away.

Skype, an internet telecoms provider, benefited from this approach during a one-day network failure in the run-up to Christmas 2010 that left many of its 124m worldwide users unable to make calls to family and friends.

Peter Parkes, who is in charge of social media in Skype’s global communications team, explains: “We kept our customers informed with regular updates every two hours. This included blog posts as well as videos featuring our CEO, Tony Bates.”
TRADING ON TWITTER BUZZ

There is an increasingly solid case being made that global social media sentiment is becoming a powerful influence on the way that companies are valued. At the vanguard of those seeking a financial angle from the social media buzz is London-based Derwent Capital Markets, the first hedge fund to launch with an investment model based heavily on Twitter sentiment.

“Sentiment has always been important but until now there had never been a way to analyze it. That was until social media gave us access to huge amounts of real-time data,” says Derwent’s co-founder Paul Hawtin.

His new venture was born in November 2010 after the 29-year-old spotted a research paper online that had been co-authored by Johan Bollen of Indiana University. Bollen, a psychologist, had analyzed millions of tweets for their emotional context. His findings showed that, when correlating this sentiment against the Dow Jones Industrial Average, he could predict the markets three days in advance and with an 87 per cent accuracy rate.

Hawtin, who has exclusively licensed Bollen and his team’s work, says that the model is being refined to delve deeper into industry sectors and the bigger players within those sectors. As Twitter adoption becomes ever more widespread, potentially all companies will be covered.

“We’re only a few months away from trialing our models on individual stocks and I’m confident that when we look back in a couple of years things are going to be very different indeed. Social media sentiment will be accepted as a powerful influence on valuation. This is a wake-up call for companies because all of a sudden they are going to be forced to take very seriously what is being said about them. And it all falls back on transparency – hiding things is a real risk these days; it just takes a whisper for something to go viral.”

And by the time it goes viral, hedge funds such as Derwent will have already made their move.

He recorded two on December 23 alone.” The updates continued until Skype returned to normal and were followed by a much-lauded blog post from the CIO offering a frank explanation of the reasons for the outage.

With the number of online users rising globally, choosing whether or not to engage with stakeholders through social media has consequences that can affect a company’s bottom line – as Nestlé found in 2010 when Greenpeace campaigned against its sourcing of palm oil from deforested areas in Indonesia. The campaign, inflamed by responses Nestlé made to comments on its Facebook page, hit the share price and forced a change in policy.

THE IMPORTANCE OF STRATEGY

While social media has created opportunities for companies to understand more about their audiences, it has also presented challenges. Brian Snyder, Senior Manager, Social and Emerging Media at Whirlpool Corporation, says: “The expectations of customers in terms of engagement and transparency mean companies must collaborate across the regional and functional boundaries of their business. A successful social media strategy requires integrated communication channels – including Facebook, Twitter, YouTube and so on – along with coordinated activities across corporate communications, brand marketing, sales, customer service, human resources, investor relations and involving legal issues.

“Companies need to prioritize policies and align their corporate communications to achieve their business and reputational goals. Once these measures are taken, companies can then develop a robust training curriculum and a tool kit so they can effectively engage across the social media network.”

EXPOSE YOURSELF

In the internet age, a local issue can become international almost instantly. It’s highly likely that from now on every global event of significance will have someone nearby who is blogging about what is going on, even if at the time they are unaware of the gravity of what they are witnessing, as was the case with the death of Osama Bin Laden.
Computer programmer Sohaib Athar would not have dreamed that the helicopter engines he was complaining about on his @reallyvirtual Twitter feed were the approaching US Navy SEALs. But within hours, a global audience would read the 33-year-old’s real-time Twitter stream on the events in Abbottabad that led to the death of the world’s most wanted terrorist.

In a time of instant global communication, activists in one corner of the world can attack companies operating in another. In such situations, an established online network is critical in order to influence the debate quickly. There is usually a small window between receiving information and forming an opinion, after which it is difficult to change. Understanding who the agitators are and establishing a process for quick response can help organizations mitigate risk to their reputation. This is precisely what a well thought out social media strategy can achieve.

Even though technology is evolving, sincerity and transparency will always remain at the center of social media engagement. An honest and meaningful engagement gives organizations and their executives an opportunity to present themselves as real people in front of their stakeholders. This is the kind of trust that is required if and when a company is forced to face down its critics in the public arena. To achieve this, organizations must be willing to discuss their limitations as well as their successes.

There is a scene in the movie 8 Mile, when the rapper – played by real-life rapper Eminem – realizes that the only way to win a rap competition that features “trash-talk” is by trashing himself. On stage he raps about being poor, white, and the son of an alcoholic single mom. He exposes potential embarrassment before his opponent has the chance. He wins because he had a platform, a voice, and the courage to expose himself on his own terms before being exposed.

There is no one-size-fits-all social media rule for businesses, but there is one constant that emerges in this new era of radical activism: be transparent or be exposed.

Rachelle Spero is a Partner in Brunswick’s New York office and Andy Rivett-Carnac is a Director in London. Both specialize in digital and social media communications.

Anukriti Vatsa, an Executive in Brunswick’s New York office, also contributed to this article.
WHEN INFORMATION IS ABUNDANT, A GOOD FILTER IS PRIZED

In the internet age, the abundance of free information creates its own problems. This is the opportunity for the big business information groups. Tom Glocer, CEO of Thomson Reuters, argues that a path to relevant information is what people need.

As Stewart Brand, an early technology guru, wrote in The Media Lab nearly a quarter century ago, “Information wants to be free. Information also wants to be expensive. Information wants to be free because it has become so cheap to distribute, copy, and recombine – too cheap to meter. It wants to be expensive because it can be immeasurably valuable to the recipient. That tension will not go away.”

That statement is as true now as it was then, despite the information revolution that has occurred in the intervening years. So much information has become freely available as the internet has evolved. But businesses still need information that helps them do commerce and are willing to pay for it. The challenge now lies in providing the most useful and relevant information – and in creating an efficient path to it.
Since the invention of Gutenberg’s press in the 15th century, each successive generation has been exposed to exponentially more information than the previous one. In the 14th century, before the printing press, an individual would be lucky even to read a single book in a year. By the end of that century, an intellectual might have been able to access five or even 10 books.

Two centuries later, as James Gleick points out in The Information, the German philosopher Gottfried Leibniz was lamenting “the horrible mass of books which keeps on growing,” which led him and others to lead the development of libraries to help manage the increase in information volume.

Today, the number of information providers has exploded and includes such organizations as Thomson Reuters, the search engines, social networks, and aggregators like Google News. The world is now awash with data – the number of “bits” in the digital universe is already greater than the number of stars in the known universe. This includes news, phone calls, text messages, security prices, company information, social website postings, electronic books and medical health records. Approximately 107 trillion e-mails were sent via the internet in 2010 alone, and the volume of information continues to grow.

The Thomson Reuters financial data network, the largest financial real time data network in the world, routinely carries 750,000 updates of financial information per second. Over the past 20 years, our network traffic has increased by 60 per cent every year. A professional today could view more new information in a single day than a typical professional was likely to encounter in his lifetime 30 years ago.

The speed at which information is delivered and shared is increasing exponentially as well. Our dedicated data feeds deliver information in milliseconds so that computers at the receiving end can make trading decisions before the competition. One of our customers recently estimated that each millisecond in which they receive information faster than their rivals is worth $100m per year in terms of competitive advantage.

Of course, a huge trove of this information is now free and this has disrupted the media landscape like nothing else in the industry’s history. The primary competitive advantage media companies had long held was their iron-clad grip...
over both the content they created and its means of distribution. That, coupled with the huge cost of entry into the business for would-be competitors, ensured a very powerful business model for newspaper publishers, TV networks, record labels, and movie studios.

Thomson Reuters is home to one of the oldest media outlets in the world, the Reuters Newswire. I firmly believe that this flood of information plays to Thomson Reuters singular competitive advantage as an information provider. Our entire business model and strategy for growth rests on a basic assumption that relevant, actionable information and the tools to analyze and act upon it have value. We have found that professionals all over the world are willing to pay for information that they absolutely require to do their jobs and they want exactly that information, not more.

Today, we combine industry expertise with innovative technology to deliver critical information to leading decision makers in the financial, legal, tax and accounting, scientific, healthcare and media markets. Our professional products range from our financial information platform – Thomson Reuters Eikon – to our legal research system – WestlawNext – to our global tax software for multinational corporations and big accounting firms – ONESOURCE. Our products also include innovative data services that help law enforcement...
authorities track down missing children and health experts track the spread of epidemics. The type of data we sell is highly valuable content that people are willing to pay a premium for, usually by subscription.

But information alone isn’t enough, especially given how much of it there is these days. Equally important is ensuring that the information we provide is valuable in terms of giving our customers the ability to find the information they require in a sea of data. New York University’s Clay Shirky, who studies the social and economic effects of the internet, has a point when he says that today’s challenge is not so much information overload as it is filter failure. Providing people with efficient navigation takes an extra layer of analysis and systemization. To that end, we rebuilt our legal research system, Westlaw, from the ground up. The search functionality of WestlawNext makes legal professionals significantly more efficient and gives them the confidence that they’ve explored every relevant document.

In a world awash with data, the problem that professionals face is not, therefore, an overabundance of information, it is the lack of good filters. In an increasingly noisy world, Thomson Reuters improves the signal-to-noise ratio for professionals around the globe. We enable our customers to detect the often faint signals hidden in big noisy data sets that help them fulfill their goals. That is information worth paying for.

Tom Glocer is CEO of Thomson Reuters, the world’s leading source of intelligent information for businesses and professionals. He joined Reuters Group in 1993 in the US legal department and held various senior positions until he was appointed CEO in 2001. He became CEO of Thomson Reuters when the two companies combined in 2008.
Thomson Reuters is betting that combining quality journalism and commentary with the deeper coverage associated with trade publications will translate into products that subscribers will pay premium prices for.

Stephen Adler, who was promoted by CEO Tom Glocer in February to head the news division at Thomson Reuters, has begun rolling out a number of highly focused new products targeted at professional audiences, in particular those working in law, tax and accounting, healthcare and science. Adler, who previously had been BusinessWeek editor-in-chief for four years, joined Thomson Reuters in 2009 with a remit to develop coverage of those sectors. The company is now extending this strategy of news “verticals.”

In healthcare, for example, Reuters launched an e-mail newsletter in March called This Week in Healthcare, a joint venture with CQ Roll Call, part of The Economist Group. It is focused on news and analysis of Washington’s healthcare policy developments.

Adler also has beefed up the legal beat with new hires, including Amy Stevens, from The Wall Street Journal, Eric Effron from Legal Times and Andrew Longstreth from American Lawyer.

The “verticals” strategy is one that has been around since the birth of the internet and is now being followed by most traditional media companies. Bloomberg, an early devotee of verticals, continues to expand its slate of focused products, launching Bloomberg Government, a policy wire, this year. The New York Times has also built out its Dealbook column into a full-fledged website covering the financial services industry.

“Before the web and these highly focused entities, journalists got to decide what was important,” Dealbook editor Andrew Ross Sorkin recently told The Daily Telegraph. “Now journalists have to try and understand what their consumer actually wants to read and what angle they are looking for in order to keep audiences engaged in a highly competitive world.”

This new emphasis on highly focused coverage is clearly an effort to tap into the lucrative markets that have traditionally been the strict province of industry trade publications. As Adler puts it, “The goal is to give our customers a much deeper understanding of their professions.”

Justin Dini is a Director in Brunswick’s New York office. A former journalist, he advises on corporate reputation, litigation and crisis communications as well as M&A and restructuring, with a particular focus on the media sector.
After several quiet years, the market for corporate control is starting to stir. The flurry of deals announced so far in 2011, including AT&T’s agreement to acquire T-Mobile USA, ConAgra’s proposed bid for Ralcorp, and eBay’s acquisition of GSI Commerce, indicate that M&A has returned, and is perhaps headed back to the levels seen before the financial crisis.

The comeback is affecting deal-making across the board: domestic, cross-border, emerging markets, strategic, private equity, friendly as well as hostile transactions. This was supported by a presentation from Antonio Weiss, Global Head of Investment Banking at Lazard, to the 2011 Tulane Corporate Law Institute this spring, in which he concluded that “factors are in place for a resurgence in M&A.” He identified market drivers such as a more stable regulatory environment, unprecedented corporate cash reserves and “private equity firepower,” and equity markets that have mostly rebounded from the depths of the financial crisis.

According to Brunswick’s 4th Annual M&A Survey, released at the Tulane conference, the foremost reason dealmakers give for increased deal activity is rising board-level confidence, outweighing factors such as cash on the balance sheet or access to credit.

Despite turbulence around the world – Japan’s natural disaster, turmoil in the Middle East and sovereign challenges in Europe – confidence in corporate boardrooms is up and there is a hunger to pursue deals which may have been put on the back burner a year or two before. Some 40 leading M&A practitioners participated in the survey and shared their views on current deal trends. The survey identified a number of big trends in M&A, in terms of their location, the type of companies involved, the nature of their financing and the biggest concerns for dealmakers. The following are some of the highlights.

What is the single greatest factor that you think will drive the rebound in M&A activity for the rest of 2011?

This year, nearly half of those surveyed view the return of CEO and board confidence as the greatest driver supporting more deal activity, an increase from 36 per cent last year. A further 26 per cent pointed to an improving economy as the primary reason for the up tick in sentiment. These factors far outweighed others, such as the availability of cash on company balance sheets (11 per cent) or access to credit (11 per cent).

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<tr>
<td>Improving economy</td>
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<td>More cash on balance sheets</td>
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<td>Greater availability of credit and low interest rate environment</td>
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The 4th Annual Brunswick Group M&A Survey polled some 40 leading participants in the M&A community, including bankers, lawyers and other advisers, to solicit their views of the current deal landscape, trends, opportunities and expected challenges. Results were released on the eve of the 23rd Tulane University Law School Corporate Law Institute, an annual M&A conference.
Greater internationalization One of the most visible trends in M&A is the increase both in deals taking place outside the US and in deals in which US businesses are the target of foreign buyers. Data from Dealogic based on the location of the target company show the US share of global M&A was down to 32 per cent in 2010, from 39 per cent in 2005, with China’s and Latin America’s shares rising. One of the largest deals in 2010 was an all-Mexican affair: América Móvil’s $21bn acquisition of Telmex. The trend has continued in 2011, illustrated by deals such as Vodafone’s sale of its stake in French telecoms company SFR to Vivendi for $11bn, as well as Canadian miner Barrick Gold’s $7.8bn bid for Equinox Minerals. Brunswick’s survey respondents expect the trend to continue. Whereas 79 per cent saw domestic deals driving US M&A in 2009, only 59 per cent see it as the main driver in 2011. Asian companies are considered by more than half of those polled to be the most likely acquirers, followed by European companies, at 36 per cent.

Concerns of acquirers Respondents ranked regulatory or political considerations as the issues of most concern for foreign acquirers in the US. Interestingly, respondents cited cultural differences next. Domestic resistance to foreign bids in recent years, especially to those made by state-controlled companies, has made potential acquirers wary (see The art of the cross-border deal on page 21).

Private equity is back Private equity deals are also back in style, as credit markets have bounced back from the 2008-2009 financial crisis. Notable examples come from the consumer sector, with buyouts of J. Crew, Del Monte, Burger King and Gymboree over the past year. More recently, Blackstone Group agreed to acquire the US assets of an Australian property group for $9.4bn, Carlyle Group has announced a number of small transactions and Apax Partners announced it is acquiring both Epicor Software Corporation and Activant Solutions. However, deal values mostly remain well below the $20bn-plus mega-transaction mark seen back in 2007. This could be something to watch for in the second half of 2011 if credit markets continue to be supportive.

Going hostile In another bullish signal, unsolicited bids are trendy again, judging by deals such as the tussle between Deutsche Börse and Nasdaq/ICE for NYSE Euronext. Companies are seemingly unfazed by the recent Delaware ruling that upheld Airgas’s poison pill defense against Air Products and Chemicals. Indeed, defense

What type of deals do you expect to drive the M&A market in 2011?

<table>
<thead>
<tr>
<th>Type of Deal</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic transactions among strategic buyers</td>
<td>59%</td>
</tr>
<tr>
<td>Private equity</td>
<td>22%</td>
</tr>
<tr>
<td>Inbound – foreign acquirers into the US</td>
<td>14%</td>
</tr>
<tr>
<td>Outbound – US acquirers outside of the US</td>
<td>6%</td>
</tr>
</tbody>
</table>

Where do you anticipate overseas acquirers for US companies coming from in 2011?

<table>
<thead>
<tr>
<th>Region</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Asia</td>
<td>53%</td>
</tr>
<tr>
<td>Europe</td>
<td>36%</td>
</tr>
<tr>
<td>Middle East</td>
<td>6%</td>
</tr>
<tr>
<td>Brazil</td>
<td>5%</td>
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</tbody>
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mechanisms have declined over the years, with devices such as poison pills considered to be not in the best interests of shareholders. For companies contemplating hostile deals, survey respondents overwhelmingly identified overpaying as the most significant concern.

COMMUNICATING THE DEAL
Many of the issues raised by survey respondents can be addressed with the right external and internal communications strategies. For example, clear and consistent messages on the benefits of a transaction can go a long way towards making the right first impression with regulators. Cultural differences cannot be solved overnight, but obstacles can be eliminated more quickly if employees feel that they are a part of a newly combined company as early as possible after the merger agreement is signed.

In fact, much of the success of a transaction hinges on the integration work once the transaction closes. Steven M. Davidoff, writing as “The Deal Professor” in a New York Times DealBook column, writes, “Let’s face it, buying companies is fun…but then the real work begins; merging different business cultures and integrating company operations. Experts increasingly believe that the outcome of a merger depends in large part on the success of these efforts at integration.”

Done right, transactions can enhance or even transform a company’s strategic direction and deliver increased shareholder returns. Pitfalls remain however, including overpaying, bad timing, regulatory roadblocks, or simply following the wrong strategy. The best advisers will help to navigate these issues or, if appropriate, prevent a transaction from happening at all.

Transactions thrust a company into the spotlight and are an opportunity for companies to reshape their perception amongst critical audiences. In the current climate, it is vital that companies contemplating a strategic transaction consider the corporate reputation implications before embarking on a new strategic path.

How would you rank the issues of most concern for overseas acquirers coming to the US?

Forty per cent of respondents ranked regulatory or political environment as the primary concern for foreign acquirers contemplating a US transaction, with 19 per cent citing that cultural differences were a consideration too.

How would you rank the issues of most concern for companies contemplating hostile deals?

When asked about concerns companies face in considering an unsolicited bid, the majority of advisers continue to rank overpaying (37 per cent) and a staggered board structure* (38 per cent) as the most prominent issues.

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Monika Driscoll is a Director in Brunswick’s New York office. She advises on M&A, investor relations and corporate reputation.

Beau Allen in Brunswick’s New York office contributed to this article.

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**%A staggered board of directors (also known as a classified board) is a board that is made up of different classes of directors with staggered election times. When a hostile bidder tries to acquire a company with a staggered board, it is forced to wait at least one year for the next annual meeting of shareholders before it can gain control. Consequently, staggered boards reduce the risk of a takeover since it takes longer to influence and gain control of the board. Percentages include first and second rankings; total adds up to more than 100%.**
POLITICAL DUE DILIGENCE AND THE ART OF THE CROSS-BORDER DEAL

by Sarah Lubman
Brunswick, New York

Cross-border transactions are on the rise again, accounting for more than 40 per cent of the $2.7 trillion in global M&A in 2010. US businesses were the most targeted in 2010 and increasingly the buyers are from emerging economic powers.

But current public and political sentiment in the US can pose challenges for foreign investors. A headline can make or break a deal, and failure to address the political and other perceived risks during the earliest planning stages can jeopardize a transaction and cast a shadow over a company’s reputation. In an era of tougher regulation and the politicization of foreign investment, political due diligence can no longer be an afterthought.

In the US, the level of scrutiny applied to foreign transactions has increased dramatically. While economic instability historically tends to feed protectionism, persistent high US unemployment and a highly partisan political environment mean that Washington is acutely sensitive to any transaction that could cost US jobs.

This political radar is all the more alert when it comes to US acquisitions by foreign state-owned firms and sovereign wealth funds. Cross-border deals drew headlines in 2005 and 2006 when two controversial deals were proposed, one by China National Offshore Oil Corp. (CNOOC), one of China’s big state oil companies, the other by DP World, a United Arab Emirates-headquartered port operator.

More recently, the difficulties experienced by Chinese telecom equipment maker Huawei underscored the sensitivities in the US. In 2008, Huawei and Bain Capital had to withdraw their bid for 3Com, a US tech firm since acquired by Hewlett-Packard, after it became clear the deal would not be approved by the Committee on Foreign Investment in the United States (CFIUS), a government body that was given full presidential authority in 1988 to conduct national security reviews of foreign investments. Earlier this year, Huawei also was forced to unwind its 2010 acquisition of patents and staff from tech startup 3Leaf Systems after CFIUS retroactively reviewed the transaction. Initially, Huawei had not informed CFIUS of the $2m deal.

In the current political climate in America, issues such as national security, economic competitiveness, trade policy and jobs security are hypersensitive. At the same time, however, comments by Obama administration officials show it is open to foreign investment – including acquisitions – as long as the case can be made that it promotes innovation and protects jobs.

Increased government scrutiny

Savvy foreign buyers know that US government scrutiny of foreign investment has increased since 2007, when Congress reformed CFIUS. Chaired by the Treasury, CFIUS now involves at least 15 other federal agencies, including trade, defense and national security representatives, which collectively assess the national security implications of proposed transactions.

The 2007 legislation, passed in the wake of the CNOOC and DP World controversies, streamlined the CFIUS process and gave it more political clout. This included making briefings to Congress on CFIUS’ activities mandatory; requiring top-level official clearance of any vetted transactions; requiring input from both the intelligence and labor agencies; and giving the president broad scope to appoint additional oversight members.

While CFIUS is designed to protect US national security, some constituencies stretch this to include protecting a wide range of US economic interests. CFIUS keeps much of its workings confidential, but its most recent unclassified Annual Report to Congress, released in late 2010, noted that foreign governments are very likely to continue to use various methods to obtain strategic US technologies. This highlights the need for critical thinking at the earliest stages of foreign investment in the US, given the political desire to protect homegrown innovation.

The CFIUS report also underscores the committee’s breadth and power. The most striking statistic is the surge in the proportion of deals subject to investigation, and therefore delay: in 2009, 38 per cent of CFIUS deals were subject to a full investigation, up from 14 per cent and 4 per cent in 2008 and 2007, respectively.

So what does this mean for foreign buyers who may have the financial wherewithal to acquire a US target but lack the political intelligence needed to close the transaction?

The answer lies well beyond hiring a good lobbyist, although they are certainly part of the equation. Foreign acquirers, especially if they are state-owned or affiliated, need to do the right work in advance to ensure they have identified potential friends and foes and know how to engage with them.

This isn’t simply a matter of tailoring up lists of names. Would-be buyers must be attuned to the political and policy dynamics of a proposed deal, which could intersect with issues such as national security, competition, corporate governance, fair trade and employment. Companies must shape the messages associated with their transaction accordingly and prepare for political opposition, even while seeking to prevent a firestorm in the first place.

Finally, as some buyers have learned at a cost, staying quiet won’t keep you out of the news. Unwillingness to engage can be the liability that kills a deal.

Surge in investigations

The proportion of foreign deals subject to full US government investigation has soared since 2007 law increased scrutiny.

Sarah Lubman is a Partner in Brunswick’s New York office. A former journalist, with a background in Asia, Sarah provides counsel on a range of communications issues, including transactions, corporate positioning, litigation and hostile situations.
Shots from a 2009 Guinness television commercial featuring an international toast to “Arthur’s Day,” which marked the 250th anniversary of Arthur Guinness signing a 9,000-year lease on the company’s “home” brewery at St. James’s Gate, Dublin. The ad starts in Dublin and moves around the world – to Africa, Chile, Brazil and China.
Of course he knew it was a big deal, but it wasn’t until he arrived for a holiday break in Kas on Turkey’s Mediterranean coast, that Ian Wright realized just how popular a brand Diageo had acquired. The name of the country’s giant spirits company, Mey İçki, was everywhere he looked. “Every table, every café and bar, the name was right in front of you on the salt and pepper pots,” says Wright, Corporate Relations Director at Diageo, the world’s biggest spirits company. “You couldn’t have a cup of coffee without seeing it.”

Diageo paid £1.3bn ($2.1bn) for Mey İçki, giving the London-based drinks business control of up to 80 per cent of the world market for raki, an aniseed-flavored spirit. The case for buying into Turkey was compelling: a fast growing economy with an increasingly affluent middle class. The deal delivered not only a new portfolio of brands, but also access to a distribution network and potential new customers for Diageo’s existing brands.

“The demographics work for us,” explains Wright. “We have critical mass – a large cohort of people at the legal drinking age, moving into the markets we are interested in, buying local spirits.”

Given the long history of raki in Turkey, these new customers are unlikely to move straight to Johnnie Walker Scotch Whisky, Smirnoff vodka or Tanqueray gin, but they are increasingly likely to try them. Now, whatever they drink, there’s a good chance it will be a Diageo brand. “All around the world,” explains Wright, “there tends to be a mainstream and a premium component in the drinks market. As the middle classes expand, we see increasing play for premium brands and we expect that to extend further so that premium is playing at scale.”

The Turkish acquisition is the latest and the biggest of a series of deals designed to stimulate the growth that Diageo seeks in order to compensate for more difficult trading conditions in the mature markets of Europe and North America.

Paul Walsh, Diageo’s chief executive, has predicted that the company will generate half its sales from emerging markets within the next three to five years. That growth will come partly from increasing sales of Diageo brands – the Chinese, for example, are conducting a passionate love affair with Johnnie Walker – and partly from acquisitions.

All businesses are, of course, interested in the most promising of the emerging markets: whether it is the BRICs (Brazil, Russia, India and China), the EAGLEs (Emerging and Growth Leading Economies), or the CIVETS (Colombia, Indonesia, Vietnam, Egypt, Turkey and South Africa) – pick whichever acronym you like – but not many have identified as clear a strategy as Diageo in terms of how to approach and develop a market presence.

The starting point is knowledge of the markets – and a clear communication of the values that Diageo will bring. Wright rattles off the drinking habits of the world with the expertise of a cocktail barman. “There’s still great variation. The Mexicans, of course, &…”

A national drink can carry nearly as much cultural significance as a language. As Diageo’s experience shows, when entering a new drinks market it pays to respect tradition, find suitable partners and tread lightly.

**CHEERS! SLÁINTE! KAMPAI! ŞEREFE!**

**by Kim Fletcher, Brunswick, London**
are very fond of tequila; the Chinese like baijiu; the
Koreans are big on soju. You go into a supermarket in
Russia and you are just overwhelmed by the shelves of
different types of vodka on sale. India is pretty much
whiskey and beer; Africa is beer; Brazil goes for cachaça..."

Baijiu, which is distilled from sorghum, and soju,
a starch-based spirit that is sweeter than vodka, are
unfamiliar to most Western drinkers. Cachaça, a kind
of rum fermented from sugar cane, appears
internationally but makes most sales at home in
Brazil. The popularity of tequila has grown, but
globalization has not yet ended long-standing national
tastes. They may have made big inroads, but whiskey,
gin and vodka have not conquered the world.

The Diageo approach gives the company the
opportunity to benefit from local sales, from enhanced
distribution of its own brands or from both, as with
the purchase of Mey Içki.

The company will look at different models –
partnership, joint venture or acquisition – and in
some countries the best relationship may be a
traditional distribution deal. But increasingly, Diageo
is looking for a closer relationship that involves a stake
in manufacturing.

In China, Diageo has a minority stake that could
become a controlling one. In India, where it has a
subsidiary, there are plans to launch some local brands.
It has stakes in breweries in Kenya and Nigeria, and in
the Ron Zacapa brand of rum in Guatemala, not to
mention a strategic partnership with Hanoi Liquor
Joint Stock Company (Halico), the largest branded
spirits distiller in Vietnam. With Halico, the plan is to
support the Vodka Hanoi brand with sales initiatives
and logistics expertise, while using Halico's local
network to promote sales of Johnnie Walker Scotch
Whisky, Smirnoff and Baileys. There is also a winery in
Argentina, a cachaça distillery in Brazil and a steady
stream of other possibilities.

How welcome is Diageo as it seeks opportunities
in emerging markets? Is it seen as a foreign predator,
a threat to local culture? Do consumers fear an
attempt to impose international brands? Ian Wright
pauses to consider the question. "They do see a degree
of things as British," he says. The primary listing for
Diageo's shares is London, though around half the
shareholders are outside the UK, with a large portion
in the US. So, it is an international company with
roots firmly in the British Isles.

The task, Wright explains, is clear communication
with all the relevant stakeholders, particularly the local
affiliate. "The first thing is the partner," Wright says.
"Whatever form the partnership may take, we start
with having a partner who is prepared to work with
us, who can see the value in working together."

Firms in the drinks industry are often still family-
owned. "It's really important that we can build up
trust," says Wright. "They want to know that we can
enhance the brand and protect the family legacy."
A recent example of the process is Ketel One vodka,
a business started in the Netherlands in 1691 by the
Nolet family. The first step was a joint venture between
Nolet Group and Diageo in 2008, with Diageo taking
control a year later.

"This way of doing business is actually part of our
heritage. If we look at those great Scotch whisky
names – Haig, Buchanan, Walker – they were all
family businesses. And of course there was a
Mr Tanqueray and a Mr Gordon," Wright says.
Diageo also must be comfortable with potential partners. “Compliance issues are very important to us. We have to have partners who will work in a way that conforms with all international requirements,” Wright says. “The game doesn’t start if we don’t think we have that. We’ve walked away from acquisitions where we didn’t believe we could get that degree of transparency.”

The dealings with government are also of crucial importance, including conforming to competition and other market rules, though it can extend beyond that. “Sometimes these things are just to do with competition,” Wright says. “In other situations there may be talks about investment in local communities, other forms of social activity, involvement in campaigns and education around responsible drinking. We’re currently one of the bidders for a brewery in Ethiopia, for example, and it’s not just a question of who comes up with the most money.”

There is also work to be done with supplier networks. Will those sorghum and wheat and barley farmers, those sugar cane growers and bottle makers who have worked with the existing business continue to work with Diageo? “There are relatively few suppliers of the ingredients in a market and they always have the option of working with other players,” says Wright. “We try and secure suppliers from within the country and we are keen to find ways of involving them more in the production process and in issues such as sustainability.”

It is important, too, to understand the distribution networks. In older markets, typically around 60 per cent of Diageo’s sales is to the “off-trade” – supermarkets, liquor stores – with the rest to the “on-trade” – bars, restaurants, hotels. Those proportions may be reversed in developing markets, which are less consistent and where sales outlets may be owned by the government. Wright cites India as an example of the difference. “You have a high-end premium market for international brands in the big hotels of cities such as Delhi and Mumbai. But the vast majority of sales come in other cities selling more standard products, such as VAT 69 whisky.” Last year Diageo relaunched and repackaged VAT 69 to make further inroads in the Indian market.

Diageo will not enter a market without understanding its structure and the social implications of its arrival. A prerequisite is that local consumers must have some appetite for Western influence. They must be open to trying international brands, though that is not the same as having a desire to abandon local brands.

CEO Paul Walsh explained the position to Reuters earlier this year. “In Turkey they drink raki. They’ve been drinking it for hundreds of years. Anybody who thinks you’re suddenly going to get all that heritage out and just sell Johnnie Walker Scotch, it’s just...

In Turkey, they’ve been drinking raki for hundreds of years. Getting all that heritage out and just selling Johnnie Walker Scotch, it’s just not going to happen”

Paul Walsh Chief Executive, Diageo
not going to happen,” he said. So, Diageo doesn’t expect to take over with its own brands, and it does need to communicate that clearly. If consumers felt Diageo was coming in to replace local spirits with Western brands, they might revolt.

For Ian Wright, it is vital to show respect for national social and economic values and customs, and, in the case of acquisition, to reassure all audiences that there will be no attempt to Westernize favorite products. The plan, rather, will be to find a bigger, international audience for them. “You’ve got to be extremely careful and win acceptance for the total business picture,” Wright says. “The economics may have to be softened; we may take a longer term view of synergies. We have to show respect and that we are in this for the long term. One of the ways we try to do that is by encouraging local investors to have a piece of the action.”

Fortunately, Diageo has experience of dealing with such sensitivities back in its home market. “What we are doing isn’t so different from when we moved into Scottish whisky distillers,” says Wright. “It was important that they knew we would be good stewards. Or, think of Guinness: how would it have played in Ireland if they thought there was any danger to that great national brand?”

Doing business in emerging markets is rarely straightforward and requires patience, especially in the world of food and drink with its inherent cultural sensitivities.

China is particularly protective of its home-grown industries. Last year, for example, China’s regulators rejected a $2.4bn bid by The Coca-Cola Company for Huiyuan Juice, one of China’s best-known soft drinks makers.

Diageo is still awaiting regulatory approval for its offer to take indirect control of the Chinese drinks group Schuan Swellfun, which produces baijiu under the Shui Jing Fang brand.

Earlier this year, Vince Cable, the UK Business Secretary, discussed the Diageo deal with the Chinese. The outcome remains uncertain, but they did agree a deal to prevent Chinese distillers calling their products “Scotch whisky,” a move that could help Scotland to double exports to China – currently worth around $90m – over the next five years.

This is familiar ground to Diageo, which has built up a huge base of knowledge about local operating conditions as it has grown around the world. Wright says the company has learned the importance of using that knowledge. “We’ve had our moments, but overall we’ve been very sensitive to local cultures. You have to take each country as an individual case,” he says. “You can’t wing it in this situation. You’ve got to have real knowledge of the countries you’re going into, the stakeholders you need to reach, and understand the communications required to reach them.”

When you have been teaching the pleasures of a single malt, you are well placed to understand the history and place of raki.

Kim Fletcher is a Partner in Brunswick’s London office. He was previously Managing Director of Brunswick’s sister company, Trinity Management Communications, and has a background in UK national newspapers.

### Whisk(e)y galore

The origins of the word whisky are uncontroversial. According to The Scotch Whisky Association, it comes from the Gaelic uisge beatha, or usquebaugh, meaning water of life.

The spelling of the word is another matter. For those unfamiliar with the debate, New York Times food and wine critic Eric Asimov summed it up perfectly in a column: “Whiskey is a word with an alternative spelling, whisky. Or maybe it’s the other way around.”

Asimov had written a story about the spirit and he – or his editors – had followed The New York Times’ spelling style (above right).

But “clearly, definitively, and somewhat aggressively, people from Scotland and many fans of Scotch have informed me of their preference for whisky over whiskey,” complained Asimov. He turned to Jesse Sheidlower of the Oxford English Dictionary for a second opinion, who took a different view. “This isn’t a case where a small group of fanatics are insisting on some highly personal interpretation of an issue that is not adhered to by anyone outside their cult. It’s almost universally the case that the word is spelled ‘whisky’ in Scotland and Canada, and ‘whiskey’ elsewhere.”

So what do the Scotch – sorry Scots – think about all this? The Scotch Whisky Association is refreshingly reasonable: “Most well-known dictionaries give both spellings.” But it has a much bigger annoyance to tackle, namely the use of the word “Scotch” on products that aren’t. “Scotch whisky is defined in UK law, and also protected at European Union and World Trade Organization level as a recognized ‘geographical indication,’” it warns imposters.

But in terms of style it would prefer that you dropped the ”e.”

This article has adopted the style of “whiskey” as the generic but dropped the ”e” for Scotch whisky.
JIM O’NEILL
GAME CHANGER

The man who invented the acronym BRIC talks about globalization, growth economies and the macro- and micro-economics of Manchester United Football Club

BY HEATHER MCGREGOR

How to label Jim O’Neill? The Chairman of Goldman Sachs Asset Management is warm, funny, down to earth, smart and above all else a Mancunian. Being defined by his geographical roots doesn’t bother O’Neill; rather, he is very proud to come from Manchester, in the northwest of England.

Educated at a local state school in Burnage, the same neighborhood where Noel and Liam Gallagher of Oasis grew up, he then studied at Sheffield University and went on to get his Ph.D. at the University of Surrey in 1982.

O’Neill says that doing his Ph.D. was the best decision he ever made. “My friends said ‘what are you doing a Ph.D. for?’ But my father was so proud.” O’Neill credits his father, a postman, with inspiring him to aim high. He says his thesis, An Empirical Study of the OPEC Surplus and its Disposal, wasn’t an especially noteworthy piece of work but “it taught me how to work on my own for intensive periods of time. It was a real test of mental focus.”

It is 10 years in November since he published Building Better Global Economic BRICs, the paper that was eventually to make him world famous. Can he remember why he set out to persuade the clients of Goldman Sachs that they needed to look further than the US if they wanted to invest in economic growth?

It turns out that there were two powerful drivers, one micro and one macro, that drove the birth of BRIC as an acronym.

At the micro level, in the fall of 2001 O’Neill faced the departure of his then co-head of economics, Gavyn Davies, off to chair the BBC. Davies was a Goldman legend. He had been at the forefront of the use of economics in the capital markets and helped to build the firm’s reputation and presence in Europe in a big way.

O’Neill had been hired by Davies and had always looked up to him; now Davies was going and O’Neill would be heading Goldman’s team of more than 80 economists around the world by himself. “Gavyn’s brain is about 10 times the size of mine, so I was thinking, ‘What do I do for people to think I’m capable of succeeding him?’” Davies and his original co-head of economics, David Morrison, had joined Goldman Sachs in 1986, and O’Neill pays tribute to how they changed the way economic research was done in the private sector: “They brought detail and rigor that was normally only present in government departments or academia, not in the brokerage world.”

Facing the empty shoes that Davies had left for him to step into, it is perhaps not surprising that O’Neill was looking for a way to make his mark.

During Davies’ very last meeting with the managing directors of the Goldman Sachs economics team, with people all over the world dialed-in via the video conference system, something happened that would change the world forever, not least from a macro-economic perspective. The date was September 11 2001.

Davies had said his farewells and left the room, but put his head back around the door to tell his colleagues that a plane had just hit the World Trade Center. O’Neill, who had been in one of the towers two days earlier, remembers that the meeting didn’t realize at first the enormity of the situation. “We just carried on, in our own world,” he says.
**WHAT'S IN A NAME?**

The term BRICs has often been dismissed as a mere marketing tool, but the club of nations it refers to is one that many countries have yearned to join since Jim O'Neill first coined the term 10 years ago. BRICs is an acronym for the countries that he expected would be the world's four largest economies by 2041 (later revised to 2039, then 2022). He has resisted calls to add further countries to the original four – Brazil, Russia, India and China – chosen for a combination of their size, demographics, currency movement, global demand patterns and growth potential.

The BRICs have not formed a formal trading group like NAFTA or the EU, but have held summits and recently invited South Africa to join their political club. Yet by O'Neill's reckoning, with 0.6 per cent of world GDP and a population of under 50m, South Africa doesn't qualify as a BRIC economy. China has 9.3 per cent of global GDP (the US has 23.6 per cent).

> “Beyond the immediate horror of 9/11, I thought: this is the end of American-led globalization – 9/11 was so brutally violent, and it made me think that the way the countries of the world engage with each other had to change. Globalisation in the future had got to be about the world engage with each other had to change. Globalization – 9/11 was so brutally violent, and 9.3 per cent of global GDP (the US has 23.6 per cent).

O’Neill recently told the Financial Times: “Any economy...that is already 1 per cent of global GDP or more, and has the potential for that to rise, has the ability to be taken seriously.” Earlier this year, O'Neill added Mexico, South Korea, Turkey and Indonesia into a new grouping with the BRICs that he calls “growth markets.” The criteria for this grouping is broader and includes GDP, corporate revenue growth and the volatility of asset returns.

Some labels have been slower to catch on, for example The Economist Intelligence Unit’s “CIVETS”, made up of Colombia, Indonesia, Vietnam, Egypt, Turkey and South Africa. Other groups include “ fronteras” – or not yet emerging markets, and O’Neill’s own “Next 11” countries after BRICs: Bangladesh, Egypt, Indonesia, Iran, Mexico, Nigeria, Pakistan, Philippines, South Korea, Turkey and Vietnam.

> “I frequently feel embarrassed about it – it’s just an acronym. What I am trying to do is to resolve this whole issue of defining a developed and an emerging economy”

applied it to what the world could look like in 2050. That took off. A couple of global corporations said, ‘This is the most influential paper,’ and it snowballed.” And the snowball was still rolling, having made him a truly global figure along the way. How does that make him feel? Has it changed his life?

> “I don’t know. It has given me idiotic amounts of credibility all over the world in a way that somebody like me never dreamed of.” O’Neill says that it has made his position more effective – but more complex. “Managing my life is just chaos – every day I’m invited to at least eight places in the world, and I have to say no to virtually all of them.” And how does he feel about having coined a label that has been taken up by the whole world? “I frequently feel embarrassed about it – it’s just an acronym. What I am trying to do is to resolve this whole issue of defining a developed and an emerging economy.

> “How can a BRIC country be considered ‘emerging’? China, emerging? In some ways, socially, it is emerging, but so are parts of Manchester. I see cautious investors – pension fund types, especially from the US – who treat BRIC countries as risky. I have got to try and change the name of the game here. I am trying to get people to think differently. My definition of a BRIC economy is a country that is materially influencing the world economy – that is either at 3 per cent of world GDP or is likely to become so.

“For countries that have at least 1 per cent of world GDP we’ve got to call them something else – I like ‘growth economies.’ The ‘Next 11’ [see left] includes countries by population size. Nigeria is one of them, with a population constituting 20 per cent of the African continent. This is one of the most fascinating and stimulating aspects of my job. A Nigerian policymaker asked, ‘What can we do to reach these economic indicators?’ If they do, think how good that will be for Africa.

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Would he have any advice for an emerging market? “I’ve had meetings with the Mexican Finance Minister who has asked, ‘What haven’t you included us?’ The South Africans are irritated too – they are in the BRIC political club but they’ve got to get their population up to qualify economically. Simple.”

In benchmarking himself against Davies, O’Neill is far too modest about his own achievements. In 2005, he was considered by Davies to be “the top foreign-exchange economist anywhere in the world in the past decade.” But O’Neill seems happy with the term “dirty” economist; not for him reams of refereed papers and intricately constructed econometric models. In his view, “Econometrics needs to be given a very limited role in life. The theory of it depends on economic assumptions and the data underpinning it can be terrible. Economics is a social science. So by definition, at least 40 per cent of what I say about economics isn’t going to be true. Some economists believe that 100 per cent of what comes out of their mouths is right. It’s ridiculous!”

And the future? O’Neill has been a partner at Goldman since 15 years, twice the average tenure. He recently moved to his role at GSAM. “Goldman Sachs is a fantastic place to work, right at the center of the global flow of capital. What I loved about what I did before, and what I hope to keep doing in this role, is to use all that to help countries to help themselves. How cool is that?”

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Heather McGregor is a headhunter, Financial Times columnist, broadcaster and visiting professor at Cass Business School in London.
BEST FOOT FORWARD

Jim O’Neill is a reluctant superstar. “My closest friends remain people I met at school and university, none of whom work in the world of finance.” What do they think about what he does? “They take the piss out of me.”

He still uses public transport – the bus and the Tube – to get to work in London. “Most people in the office think I’m nuts but I think they’re nuts. It’s the most effective way to get around this colossal city. They are chauffeured to work, go to the best restaurants in town and then go home. And they think that’s normal. I’m not having a dig, but a lot of people in this industry feel victimized and they need to understand what life is like for other people.”

O’Neill has not been to the annual meeting of the World Economic Forum in Davos for four years. “I don’t think my life is any emptier because I don’t go,” he says.

“Most economists are nowhere near as smart as they think they are. I used to be called a ‘dirty economist’ because I used to hang out with traders on the trading floor – I wanted to know what was going on in the real world.”

O’Neill clearly loves his job, and praises Goldman for the resources the firm puts into economics. “We have built up proprietary indicators which are followed by a lot of people and are very useful. And you should meet the people I work with. The talent of some of these young people is astonishing.”

O’Neill has always enjoyed both playing and watching soccer, and has been a passionate and committed Manchester United fan all his life, even serving as a non-executive director for a year before the club was taken private. He admits that soccer is a subject he is very emotional about. “For me, a balanced life includes being able to watch Man U play and also to see my children.” He describes the club as “a global brand of staggering size,” and wherever he goes in the world, even where people can barely speak English, he says they have always heard of Manchester United.

As someone who has spawned a global brand himself, what in his opinion has driven this universal recognition? He cites three macro influences and three micro ones, all of which he says have given the club an incredible advantage.

On a macro level, O’Neill thinks the near-universal use of the English language, the UK’s time zone (“I have always said that the greatest threat to London as a financial center would be if New York put their time zone forward by five hours”) and the arrival of modern communications have all worked in the club’s favor. But the three micro factors are, in his opinion, just as important. The first was the soccer phenomenon known as George Best. “Best was the first real celebrity player – he was like a pop star. Every boy in Manchester when I was growing up wanted to be George Best.” The second was another celebrity player from a different era, Eric Cantona. “An eccentric, idiotic Frenchman [famously disciplined for a kung fu-style attack on a rival fan who allegedly racially abused and threw a missile at him]; but until he joined, the club hadn’t won the league for 20 years.” And finally, someone who is almost a global brand himself – Manchester United manager Sir Alex Ferguson.

“Football is truly the voice of the people,” O’Neill says. As a sport it is open to everyone, whatever their socio-economic background. “You don’t need money to play, just two feet.”
OVER THE RAINBOW

South Africa is redefining its role on the world stage. Since Nelson Mandela led the Rainbow Nation’s political miracle in the 1990s, a new global realism has settled in. Now, South Africa’s seat at the table of the emerging market elite gives it a platform to showcase Africa’s untapped economic potential.

Finance Minister Pravin Gordhan, in an interview with Brunswick’s Marina Bidoli and Jeremy Michaels, discusses Africa’s unfolding narrative.
Just over a decade ago, The Economist had a map of Africa on its cover with the headline, “The Hopeless Continent.” Last November, in setting out its strategy for Africa, the World Bank took a very different tone, stating that “Africa could be on the brink of an economic takeoff, much like China was 30 years ago, and India 20 years ago.”

The World Bank noted how well Africa had weathered the 2008-09 financial crisis, and how the continent was, by and large, following prudent economic policies and making gains on development goals. The continent “has an unprecedented opportunity for transformation and sustained growth,” the report concluded, noting how Africa is increasingly attracting private sector investment.

Yet, a bleak perception of the continent – so-called Afro-pessimism, a long-standing notion that Africa’s problems are too great to overcome – has proved hard to dislodge. This was clearly demonstrated in the run-up to the 2010 FIFA World Cup, the quadrennial soccer tournament held in Africa for the first time last year when South Africa hosted the finals. To the shrill media coverage that often precedes such events, with invariable predictions of impending financial disaster, there was an added dimension that focused on the perception of Africa as a violent place where efficient organization was impossible.

As John Battersby, UK Country Manager of the International Marketing Council of South Africa, says, “The mainstream media has dominated the grand narrative for the past four decades and through selective – rather than inaccurate – reporting, has buttressed Africa’s negative trends at the expense of its potential.”

In the end, South Africa’s World Cup venture paid off. The event was widely hailed as a success and proved to be a turning point, at least in terms of altering perceptions of the country.

South Africa’s finance minister, Pravin Gordhan, recalls the turnabout in the narrative. “The stories in some international media before the World Cup – bloodshed, mayhem, and so on – well, hundreds of thousands of visitors came here and got a completely different view of South Africa,” he says, speaking to the Brunswick Review from his parliamentary office in Cape Town. “After the World Cup, wow, what a difference. Whether it is at investor meetings, meetings in Davos, or wherever, perceptions have changed. Afro-pessimism is declining.”

Another page in Africa’s unfolding story was turned when South Africa’s President, Jacob Zuma, was invited to attend a meeting of the so-called BRIC countries (Brazil, Russia, India, China) when China chaired a summit in April on the southern island of Hainan. The BRIC group has evolved from the original narrow designation as four emerging economic powerhouses to a self-defined political club with broader ambitions. It is in this latter context that South Africa’s inclusion – adding an “S” to BRIC – has been seen as deeply significant.

Pravin Gordhan
Minister of Finance, Republic of South Africa

Pravin Jamandas Gordhan was born in 1949 in Durban, South Africa. He was an executive member of the Natal Indian Congress (formed by Mahatma Gandhi in 1894) and while he was working in the political underground in the 1970s and 1980s, served three spells in detention without trial. After the release of Nelson Mandela from prison and political reforms in 1990, Gordhan participated in the negotiations for a future democratic South Africa and served as co-chair of the forum tasked with negotiating the interim South African Constitution, which led to the first democratic election in April 1994. Gordhan became Commissioner of the South African Revenue Service in November 1999 and is credited with leading a major overhaul of South Africa’s tax and customs administration. He was appointed Minister of Finance in May 2009.
In *Foreign Policy Journal*, commentator Jack Smith wrote, “The addition of South Africa was a deft political move that further enhances BRICS’ power and status. African credentials are important geopolitically, giving BRICS a four-continent breadth, influence, and trade opportunities.”

While there has been some debate about its qualification in terms of the original BRIC criteria, the inclusion of South Africa has both economic and political dimensions. In both spheres, the country has credentials as a regional leader, especially since the end of apartheid.

“The term BRICS is no longer purely a market collective,” Dr Lyal White, director for the Centre for Dynamic Markets at the Johannesburg-based Gordon Institute of Business Science, explains. “It has taken on a life of its own and carries symbolic value and political weight in a changing global order.”

Indeed, this is a view shared by Jim O’Neill, Chairman of Goldman Sachs Asset Management, who proposed the original BRIC thesis a decade ago (see interview, page 27). In the *Financial Times* last August, O’Neill wrote, “After South Africa’s successful hosting of the soccer World Cup, more and more people are focusing on the opportunities of Africa.” While recognizing that there is much to do in economic and social development, O’Neill concludes that “if Africa wants to be thought of as a BRIC, it should not be as hard as it is often made out.”

The point is not lost on South Africa’s finance minister, who sees the country representing a broader regional interest in the same way other BRICS members do. “South Africa is the largest economy on the African continent and has been very much connected to the rest of Africa for a long time, whether in a business sense, diplomatic sense, peace-making or economic development sense,” Gordhan says.

On the economic front, the BRICS platform is useful to discuss both what Africa must do to attract investment and what it requires from prospective development partners. Gordhan explains, “We must convey the message that there is a lot of hope and optimism that comes with BRICS, but that it is going to take a huge collective commitment to one another and to a particular development philosophy which we share.”
At the same time, African countries want investment partnerships that go well beyond the simple resource extraction of old. “Not only is Africa making its resource base available to the world but it must have the opportunity to add value to those resources,” says Gordhan.

African countries will provide the right climate to ensure attractive returns on inward investment, he says. At the same time, they will want to ensure that inward investment has long-term benefits by helping to build infrastructure, for example, or to provide employment and ensure “better life prospects” for African citizens.

South Africa’s BRICS membership is a reflection of a broader shift in world economic and political systems, whereby most growth in coming decades is expected to come from emerging economies. They also will increasingly do business among themselves and promote their collective interests.

As Tim Cohen, a columnist on South African newspaper *Business Day* recently put it, “BRICS countries are motivated by two desires: to create a new political axis and to increase trade outside traditional patterns, sometimes called ‘south-south’ trade. In both these efforts, South Africa fits.”

South Africa’s emerging role as the gateway to developing Africa comes at a propitious time. “The world is experiencing a seismic shift in power from US predominance to a new multipolar world,” says Dr Jakkie Cilliers, Executive Director for the Institute of Security Studies, a South African think tank. He says that improvements in political and macroeconomic conditions are fueling a new found confidence in Africa. “We are living in an unprecedented era of peace and prosperity,” he says. “Africa is a more peaceful place, even if TV images tend to focus on the immediacy of situations.”

In the past few decades, Africa has taken significant strides towards more democratic governance and more transparent economic systems. It has also started to dismantle some of the more crippling bureaucratic barriers to trade and investment.

The opportunities in Africa as a whole are comparable to those in other BRICS, a fact that is attracting more and more attention. Lions on the Move, a report by McKinsey Global Institute last summer, pointed out that Africa was the world’s third fastest-growing economic region (from 2000-2008) and that collective GDP is expected to
Out of Africa:
A continent by numbers

- By 2020, more than half of African households will have discretionary spending power.
- Half of all Africans will be living in cities by 2030.
- African growth will be driven by consumer facing industries such as retail, telecoms and banking, as well as infrastructure-related sectors, agriculture and resources.
- Africa has the world’s fastest growing and youngest population.
- Africa’s working age population exceeds 500m. By 2040, this will increase to 1.1bn.
- Africa’s working-age population will exceed China’s and India’s by 2035.
- Foreign direct investment in Africa increased from $9bn in 2000 to $62bn in 2008 – almost as large as the flow to China when measured relative to GDP.
- South Africa is the world’s 26th largest economy and the largest in Africa.
- South Africa has the world’s largest known mineral reserves (valued at $2.5 trillion), followed by Russia and Australia (each with under $1.6 trillion).
- “South-south” trade represents more than 50 per cent of Africa’s total.
- China’s trade with Africa grew 10-fold to $107bn between 2000 and 2008.

Sources: McKinsey Lions on the Move: The progress and potential of African economies; Jakkie Cilliers; Barry Hughes and Jonathan Moyer of Institute for Security Studies African Futures 2050; Citibank; Standard Bank; CIA The World Fact Book; China’s Ministry of Commerce.
including leading Chinese development and construction banks – based in the heart of Sandton, Johannesburg’s financial district – which provide cheap financing to the continent.

Nonetheless, South Africa’s challenges should not be underestimated, not least because the emerging market story is, of course, not one in which countries merely strive for mutual cooperation. BRICS members and African nations all compete head on for trade and investment. In terms of utilizing its Africa leadership role, White of the Centre for Dynamic Markets, says, “Our window of opportunity is narrowing fast.”

The South African government is well aware that it must use its newfound prominence via BRICS and other international forums to make the case for Africa on a broad range of issues, such as the reforming of global economic governance, climate change and fair trade.

South Africa’s latest economic plan – New Growth Path, unveiled last November – received mixed reviews, but among its admirers was Joseph Stiglitz, the Nobel Prize-winning economist, who praised its emphasis on job creation and spreading wealth more widely.

This is the tone that South Africa wants to set in its international role, too. Gordhan says, “With the New Growth Path and a greater focus on growth, jobs and equality, both in South Africa and the rest of the world, there are more opportunities and a clearer focus on certain sectors of the economy. In that sense we are much better prepared than we were.” There is also the sense that the world is now much more receptive to the investment case for Africa, perhaps even for a new Afro-optimism.

What did you take away from South Africa’s first BRICS summit in China?

Let me start by saying that South Africa was really pleased to be invited by China, on behalf of all BRIC member states, to become a full member of BRICS. This fits in squarely with our approach of ensuring that emerging powers and other countries of “the south” actively pursue their interests through strong engagement. Under President Jacob Zuma’s leadership, we went to our first BRICS meeting with several objectives in mind. Foremost amongst those were, as a new member, to commit to the BRICS processes and related mechanisms, to identify and leverage opportunities for South Africa’s developmental agenda, to enhance the African Agenda, and to cooperate with other emerging market economies. Both the declaration and action plan issued by the leaders at the end of the summit underscore the fact that BRICS is an extremely important grouping which will assist South Africa and the African continent to achieve the objectives which we have set for ourselves, including global peace, stability and security as well as economic growth and sustainable development.

What does South Africa bring to BRICS?

As the only African member within BRICS, we represent a continent with enormous untapped growth potential. South Africa’s membership makes it more representative and provides room for growing partnerships between the BRICS member states and the African continent. As South Africa is widely considered to be Africa’s economic powerhouse, we are ideally placed to act as the gateway to the rest of the continent.
In light of this, how do you make the investment case for South Africa?

Besides abundant natural resources, South Africa has the most developed financial, legal, manufacturing, communications, energy and transport sectors on the continent. The JSE is the largest stock exchange in Africa and in the top 20 worldwide. Our currency, the Rand, is the most actively traded emerging market currency.

When it comes to innovation, a recent World Economic Forum report placed South Africa on a par with India and Brazil. We are credited as having high-quality scientific research institutions and universities, which collaborate well with business. An example of how prioritizing strategic projects has borne results is the Southern African Large Telescope (better known as SALT), the largest optical telescope in the southern hemisphere. Built in the remote Karoo area, this multinational project aims to shed light on some of the oldest questions astronomers have asked about the universe. Now, South Africa is also a finalist to host the even more ambitious Square Kilometer Array radio telescope project that aims to probe the deepest areas of the universe.

The past decade has also seen South Africa substantially ramp up trade and investment in the region – Africa is now South Africa’s fourth-largest export destination. Increasingly, South African companies are expanding into the rest of Africa, with...
some having grown into truly multinational players. Locally-born global giants include the likes of mining group Anglo American; tobacco giant Rembrandt; cellular phone operator MTN; and Sasol, the petrochemical company that makes liquid fuel from coal and gas.

Does inclusion in BRICS give South Africa more clout to push its national interest and the broader African agenda at global governance institutions?

Yes, through our membership of BRICS, we are now in a stronger position to build consensus and prioritize pressing issues that face emerging markets, including Africa, at multilateral forums and the international institutions of global governance, such as the International Monetary Fund, World Bank and the UN Security Council. We are pushing for broader representation and are eager to advance the reform of these political and financial systems so that they are more representative of emerging markets. We believe that the BRICS can put significant weight behind restructuring global governance mechanisms and amplify the interests of developing nations.

Africa is a promising frontier for investment, but how much of an obstacle do remaining challenges represent, from poverty to internecine strife, unemployment and lack of infrastructure?

Africa, with its fast growing populations, provides enticing new growth opportunities, which are not just limited to gas, oil and mining but extend to manufacturing, food processing, agriculture, tourism, power generation, infrastructure development and more. There are real and deep challenges but these are not insurmountable. The economic, political and social revival of Africa is already well underway.

The pro-democracy protests [in North Africa] are sweeping away old orders. Backed by popular support, new governments should ultimately give birth to more attractive investment environments.

Some say the BRICS link moves Africa from the periphery to the center of the global economy. But is there a risk of supplanting traditional investors in Africa?

There certainly is a shift underway. We have seen an eightfold increase in BRIC-Africa trade and investment between 2000 and 2008. That said, our association with BRICS is by no means a rejection of our historical relations with the countries of “the north.” The developed north remains our major source of much-needed investments. But it is important to acknowledge the rising importance of the giants of “the south” and the value they bring to a developing economy such as ours.

What do you think is the most important message for potential investors in South Africa?

We have emerged from the apartheid era. South Africa is now in a position where it can contribute towards the building of a peaceful, democratic and prosperous Africa in an increasingly complex world. We are committed to the rise of our African continent and will embrace opportunities to partner dependable countries. In particular, we will support partnerships with a potential for job creation and sustainable economic growth and development in the region.

Our invitation to join BRICS carries symbolic significance as an acknowledgement of the role we play on the continent and the global stage. We will use this membership to build bridges between the north and south, and to explore new opportunities for emerging economies.

Maite Nkoana-Mashabane
Minister of International Relations and Cooperation, Republic of South Africa

During the height of apartheid in the 1980s, Maite Nkoana-Mashabane was actively involved in the United Democratic Front, the broad-based civil society movement. When the ban on the African National Congress was relaxed in 1990, she helped re-launch the ANC Women’s League. When the ANC won South Africa’s first democratic elections in 1994, she became a member of parliament. She was subsequently appointed High Commissioner to Malaysia and India and served as a provincial minister for local government and housing, in her home province of Limpopo. Nkoana-Mashabane became Minister of International Relations and Cooperation in May 2009. In this capacity she also served on the Local Organizing Committee of the 2010 FIFA World Cup. She serves on the ANC’s National Executive Committee and National Working Committee.
Well before March, when the country’s latest five-year economic plan was unveiled, China’s President Hu Jintao had been road-testing the phrase “inclusive growth” as a concept central to the next phase of China’s economic development. While such political slogans might easily be dismissed in the West, they carry weight in China, where they typically have subtle and multi-layered meanings. Perhaps the most famous of modern Chinese political slogans was Deng Xiaoping’s – “It does not matter if a cat is black or white as long as it catches mice” – which conveyed a fundamental shift away from the strictly collectivist era of Mao to one in which some aspects of entrepreneurship were encouraged in order to spur economic development.

At this year’s lianghui in Beijing, an annual gathering of the most senior political leaders and advisers from across the nation, the 12th Five-Year Plan set out the key economic and developmental goals through 2015. The lianghui can be overlooked as merely a highly orchestrated rubber-stamp affair, given that membership is dominated by the ruling Communist Party. However, it is of critical importance to companies doing business in China. Reading past the political rhetoric, the five-year plan provides one of the clearest guides available for companies doing business in China or contemplating investment.

Previous plans featured the phrases “harmonious society” and “scientific development.” The former signified policies that would help narrow the income gap and promote equality; the latter indicated efforts to foster technological innovation and a more environmentally friendly approach to development. The interpretation of “inclusive growth” is still up for debate, but one aspect of its meaning seems to be “an orderly progression,” which has been taken to mean that the government will tolerate a slower rate of growth.

Indeed, the revelation that the Chinese government would lower the official national economic growth target to 7 per cent annually over the next five years was a significant departure from a long-standing target of 8 per cent, which was deemed an important symbolic commitment to provide employment and ensure individual advancement – and to avoid social unrest. The move to a lower growth target reflects a growing concern among policymakers that the basis for recent rapid economic expansion is unsustainable and could lead to instability in future.

However, it is important to remember that the official national targets have usually been exceeded in the past, and even the 2011 official targets for many provinces are well above the new official national target. Provincial growth targets for 2011 and the actual performance of the national economy...
The lianghui (两会), or "two meetings," refers to the annual gathering of the National People’s Congress and the Chinese People’s Political Consultative Conference, which are typically held during the first two weeks in March. New five-year economic plans are unveiled at these conclaves. The National People’s Congress is the highest legislative body in China and has sole responsibility for enacting legislation in the country. The Chinese People’s Political Consultative Conference is an advisory body that includes politicians, academics, business people, celebrities and experts from various fields.
over the previous five years demonstrate the large divergence between the official targets and actual outcomes (see left). So, clearly, the 7 per cent target is not to be taken literally. Nevertheless, it is an important signal from the central political leadership. Businesses are being encouraged to focus on the quality of their growth in order to support Premier Wen Jiabao’s call to "transform the country’s economic growth pattern."

In the weeks and months following its release, senior officials fleshed out the meaning of the headline targets and slogans of the five-year plan. For example, in an interview with Chinese newspaper 21st Century Business Herald, Li Wuwei, Vice-Chairman of the Chinese People’s Political Consultative Conference, explained, “During the next five years, China will focus more on altering its economic growth pattern while tackling environmental issues. We’re aiming for higher quality GDP growth.”

There is a clear intent to shift China away from a reliance on high-volume, low-wage manufacturing and exports – all of which have contributed to the environmental challenges China faces today – and to expand domestic consumption and high-end imports. As well as changing the domestic growth pattern, there is also a desire to re-balance China’s trade with foreign nations, as President Hu Jintao outlined in his “inclusive growth” speech to the Asia-Pacific Economic Cooperation meeting last September. For multinational companies, it is important to note that China is encouraging a different type of inbound investment – less low-wage manufacturing and more research-based industries that will foster indigenous innovation.

**SHIFTING GOALS**

As well as the pace of growth, shifting consumption patterns, environmental goals and so on, China's leaders also set strategies aimed at fostering specific industrial policies.

The development of cleaner and more efficient energy remains a top priority, with a desire for improved use of traditional energy sources as well as the development of clean energy technology. This opens up direct opportunities for companies in the energy sector, but is also important for companies in other sectors to show that they understand the signals the government is sending about energy.

PepsiCo, for example, built a “green” beverage plant in Chongqing that met the highest standards of
energy efficiency, certified by the US Green Building Council. The facility is designed to use 22 per cent less water and 23 per cent less energy than the average PepsiCo plant currently in operation in China.

In the latest plan, China also set seven new high-priority strategic sectors for development over the coming five years: energy conservation; environmental protection; new energy; biotechnology; high-end equipment manufacturing; new materials; and new energy vehicles. These new strategic sectors will receive specific incentives and support.

Plans for the rapid expansion of the high-speed transportation network are influenced by China's need to spread prosperity from the coastal cities to the interior. Significant investment is earmarked to further enhance the network with new expressways, high-speed railway lines, airports, and waterways scheduled to be built in the coming years.

Again, beyond the direct investment opportunities there are other implications. The new networks are transforming inland provinces and reducing the need for local workers to travel to coastal provinces to find employment. Manufacturing facilities in coastal provinces have already reported a significantly tighter employment market as a result.

The government also intends to expand access to healthcare and enhance hospital management systems. They will also encourage non-governmental foreign investors to establish medical institutions.

HOME-GROWN TALENT
China has paid significant attention to the role of “indigenous innovation” in industrial plans. As with most countries, China is concerned about promoting its own inventors and innovators who will provide the growth of the future. This has been an explicit concern at least since 2006, when the State Council issued “The Guiding Principles for Mid-to-Long-Term Scientific and Technological Development (2006-2020),” a plan to support domestic innovation via a package of tax breaks, financial support, and other incentives.

There was consternation among foreign companies that Chinese companies would be favored. But following significant international engagement, Premier Wen stated in April last year that “the policy that is designed to encourage indigenous innovation will treat all enterprises that operate on Chinese soil as equals and will not exclude foreign enterprises.” During the third US-China Strategic and Economic Dialogue in May this year, the Chinese government agreed to officially decouple indigenous innovation from government procurement policies. However, the indigenous innovation policy remains a concern for foreign governments and businesses, which are waiting to see how and when the adjustments will be implemented at central and provincial levels.

The reasons behind China’s worries are clear. Political leaders have expressed concern that China cannot continue to rely on the kind of growth it has seen in the past. The country will not require the same volume of new roads, railway lines, and buildings in the future. If a fundamental shift in the economic growth model is not implemented today – based on improving quality, environmental sustainability, and diversity – then China’s ability to deliver prosperity and stability will be challenged.

China’s leaders want economic growth that will rely less on manufacturing and infrastructure. This means a greater emphasis on the service sector as well as on innovation. While manufacturing has been the engine of growth and employment, there is concern that the largest economic return continues to be earned overseas and that an unreasonably large percentage of pollution in China is caused by the manufacturing of goods for export. Also, the risks attached to China’s reliance on manufacturing and exports were highlighted when the global financial crisis hit and overseas demand suddenly dried up.

So, foreign companies operating in China have to consider carefully the meaning of the country’s political rhetoric and broad economic goals. Some of the national objectives in the 12th Five-Year Plan may sound vague, and some specific numbers may not tally, but there are often more oblique meanings that can help companies to define risks and opportunities, and to make sure their plans, actions and messages are in line with China’s true national priorities.

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THE EASTERN REVIVAL

by Ronald Schranz
and Denisa Lazarescu, Brunswick, Vienna

BRICs may have been the most fashionable economic term of the past decade, but “Emerging Europe” is coming back in vogue. Though the region’s economies are resurgent, its sheer diversity makes it a challenging story to tell. Most people could rattle off the four countries making up the BRICs, but those under the Emerging Europe umbrella would be harder to name. The 21 nations commonly named (including Russia, one of the BRICs) are as diverse as Turkey and Estonia, but are bound by certain geographical, historical, cultural and economic ties. They also share a largely untapped potential for economic growth.

Together these nations cover a vast area, from the Czech Republic in the west, to Russia and the Baltic states in the north, to Turkey and other Black Sea countries in the south. Ten are European Union members, while another four have pending applications. Economically, the region is expected to grow by 4 per cent this year, twice the rate of western Europe, proving those who wrote off eastern Europe in the last decade wrong.

Poland, in particular, is becoming a regional business hub, with the Warsaw Stock Exchange growing in influence. Also, Turkey, with a population of 74m – half of whom are under the age of 29 – is striving to become the financial bridge between Europe and the Middle East. Ukraine, traditionally dependent on Russian gas imports and nuclear energy, is now promoting green energy businesses as part of its plan to diversify its energy mix and, more broadly, to promote inbound investment.

Emerging Europe countries offer diverse opportunities, as well as challenges, for investors. Cheap skilled labor, comparatively low public debt and impressive levels of growth are all attractive, while issues such as corruption and investment volatility are less enticing. Investors also need to be aware of the contrasts and similarities within the region. Across a relatively small distance of 300km one can encounter quite different languages, religions, cultures, legal systems and economies. Each opportunity is unique.

Here we look at three very different countries – Ukraine, Turkey and Poland – each with a compelling growth story to tell.

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Ukraine and “green energy” are words that most people would not immediately put together. In the energy sector, Ukraine is best known in recent years for a series of rancorous disputes with Russia over gas supplies, which has served to underline Ukraine’s dependence on its powerful neighbor. It also is tragically associated with the worst nuclear disaster in history, at Chernobyl. So, an energy diversity program that includes attracting inbound investment is highly challenging, but that challenge is well understood by Ukraine’s policymakers.

Ukraine was hit hard by the financial crisis, but is inching back to recovery. The introduction of “green tariff” incentives is a further effort by the government to support economic growth, with the dual purpose of helping Ukraine to reduce its debilitating economic dependence on Russian gas – as both a consuming and transit country – and its reputation as a polluter.

The potential to reduce Ukraine’s greenhouse gas emissions is enormous. The International Energy Agency estimates that Ukraine’s steel sector, for example, produces twice as much CO₂ as the international average. Ukraine can take advantage of the Kyoto agreement, whereby a developed country can finance CO₂-reduction projects in Ukraine in return for credit against its own obligation to cut emissions. However, just such a deal with Japan two years ago led to allegations of corruption.

Ukraine has since elected a new president, Viktor Yanukovych, who ran on a stability and pro-business platform. The government set up the new Agency on Green Investment to attract financing, and the new tariffs – which mandate the fees power generators must pay for green energy supplies – should help promote clean power generation.

Vienna-based Activ Solar is one of the energy companies that was attracted by Ukraine’s efforts to nurture a green economy. It converted a dilapidated, Soviet-era semiconductor factory in the southeast of the country into a state-of-the-art plant producing high quality polysilicon for solar cells. Running on half the electricity and a third of the water required by its former operators, the new factory provides components to big solar panel producers in Europe and Asia.

“After several years of instability and difficult economic growth, Ukraine is on track to become one of the most promising markets in eastern Europe,” says Kaveh Ertefai, CEO of Activ Solar. “In particular, the government passed regulation in support of green energy – and looking at the recent events in Japan, this was a timely move.”

Last September, Activ Solar also completed Ukraine’s first large-scale photovoltaic power plant, near Simferopol, the capital of the Crimea region. The location is no accident as Crimea offers very high annual solar radiation and good potential for solar power growth. Crimea also is heavily dependent for electricity on the Zaporizhzhia nuclear power plant, the largest such facility in Europe, supplying a fifth of Ukraine’s power. Well before Japan’s disaster, Ukraine had its own reasons for wanting to reduce its reliance on nuclear energy.
Turkey has long benefited from its unique location bridging two continents, an advantage that is arguably more alluring than ever for international investors. The country's investment promotion agency, Invest in Turkey, also known as ISPAT, has been successful in promoting this idea to international investors. The main challenge for Turkey is to reassure investors that it can also bridge the sometimes choppy east-west political waters.

Turkey has significant attractions for foreign investors. M. Ilker Ayci, President of ISPAT, can point to many successes in recent years. “It is a stable country with a strong financial industry and a growing business environment,” he says. “Qualified staff, attractive cost levels and favorable taxation have already attracted numerous companies.” Turkey ranked as the 15th most attractive foreign direct investment destination for the period 2008-2010, according to the most recent World Investment Prospects Survey by UNCTAD, the United Nations trade and development arm.

Recent economic success – Turkey’s 8.9 per cent growth rate last year was the world’s fourth fastest among large economies – can be attributed in part to structural reforms introduced in 2002. These enhanced the role of the private sector and boosted the efficiency and resilience of the financial sector. They also placed the social security system on a more solid foundation.

Reform has been hastened by Turkey’s desire to join the European Union. Negotiations began in 2005 but the bid has been politically controversial on many levels and may drag on for years. Nevertheless, the process has been good for Turkey’s economy as it has encouraged policies to bring it closer to the EU. This convergence has promoted economic growth and has attracted foreign investment, just as it has in other countries that have followed the same process. As potentially the second most populous member state after Germany, the interest in Turkey has been remarkable.

The government has set the ambitious target of making Turkey’s economy one of the world’s 10 largest by 2023, the 100th anniversary of the founding of the republic. The target for GDP is $2 trillion by that year, which would mean doubling it from the current level.

Central to Turkey’s growth story is the Istanbul Stock Exchange (ISE), which also benefits from its pivotal role in bringing together investors from the west with those from the Middle East, Russia, Asia and elsewhere. While Turkey’s business landscape has in the past been dominated by family-controlled conglomerates which have shied away from the public markets, that is changing as new generations take charge. The performance of the biggest companies on the ISE may well encourage more interest from foreign investors and local companies alike: the ISE 100 index has risen by nearly 200 per cent in the past two years.

The main challenge for Turkey remains geopolitical. The religiously conservative, pro-EU Justice and Development Party (AKP), led by Recep Tayyip Erdogan, has managed to strengthen ties with neighbors, including Iran, while staying pro-West. It is a fine line to tread but it is necessary in order to keep that east-west bridge open.
It is November 9, 2010, Warsaw. The bell rings for the opening of the Polish capital's stock exchange. But it is more than just a routine day of trading – this opening marks the debut of the Warsaw bourse itself. Shares in the Warsaw Stock Exchange (stock symbol GPW, based on its Polish name) soared 22.5 per cent on its first day of trading, as one of the most emblematic privatizations in Polish history came to a close.

The exchange's successful equity debut underlined Poland's achievement in establishing itself as the premier capital market for the region. Eliza Durka, the WSE's Director of Communications, says: “Our stock exchange has performed outstandingly over the past few years.” This is backed up by the fact that the WSE has regularly been one of the busiest exchanges for European IPOs in recent years.

Located on the top floor of the old Communist Party headquarters, the exchange carries much symbolic weight for the transformation of Poland and the region since the collapse of the old regime two decades ago. Since then, the WSE has become one of the fastest growing bourses in Europe, having overtaken Vienna and Athens in terms of turnover and market capitalization.

The big banks also are being lured by this IPO boom, especially the prospect of a wave of privatizations planned by the government to raise more than $8bn through 2012. Goldman Sachs, the US investment bank, has established a presence in Warsaw and was one of the coordinators for the WSE's share flotation last November. “A stock exchange is an indicator of an entire market's development,” says Monika Schaller, an executive director at Goldman Sachs. “Even during the financial crisis, the WSE proved to be a stable bourse with a very dynamic and efficient capital market.”

As well as having the largest regional turnover, WSE is notable among the Emerging Europe countries for having the largest company list – today, a little over 400 domestic and overseas companies trade on the WSE’s main market and the exchange’s capitalization exceeds €200bn ($289bn).

The WSE has been quick to spot some of the international corporate trends and has, for example, introduced its Respect Index to take advantage of the increasing enthusiasm for investing in companies based on social responsibility criteria. Launched in 2009, the index includes companies that have formal “responsible management” systems in place, which serve as a tool for companies to formally communicate their achievement of specific corporate responsibility goals.

One Index member is PKN Orlen, one of the largest oil refiners in the region. “The Respect Index is proof of the growing maturity of the Polish market and the need for companies to engage in corporate social responsibility,” says Andrzej Kozlowski, PKN Orlen’s Executive Director for Strategy and Project Portfolio Management. Through initiatives like the Respect Index, “The Warsaw Stock Exchange helps to reinforce trust and create solid partnerships, which influence the value and profits of listed companies,” Kozlowski says.

Despite such positive reviews, the WSE still has a fairly limited list of non-Polish companies. Of the just over 400 companies listed on the main market, only 32 are headquartered overseas. As the respective markets of Emerging Europe continue to grow, the WSE is aiming to build on its growing reputation as a capital raising platform to attract investors looking to do business in this part of the world.

As with many other businesses, the WSE is also looking to the 2012 UEFA European soccer finals to promote itself as the regional capital market hub. Poland and Ukraine jointly won the bid to host the high-profile event – the European soccer finals rival the Olympics and World Cup soccer for attracting the most well-known companies, which will include Coca-Cola, Adidas and Hyundai-Kia.
DO IT THE HARD WAY

It takes time to build trusting relationships with stakeholders when moving into new markets. It may not be the quick and easy route, but time and effort invested in real engagement can pay off.

BY JOE CARBERRY, BRUNSWICK, SAN FRANCISCO AND MARIA FIGUEROA KÜPÇÜ, BRUNSWICK, NEW YORK

There is an old Chinese proverb that says you should “dig your well before you’re thirsty.” That is sound advice for multinational companies when it comes to building relationships in new markets, especially in developing economies. Forming real and lasting bonds with local stakeholders might be laborious, but it is a better way – often the only way – to gain a solid foothold in a market.

International growth defines most multinationals, but it is getting tougher and more complicated to gain access to emerging markets. It used to be enough just to regionalize operations and tailor products for local customers. Now, more is required as companies face closer government scrutiny, more regulatory intervention and unfamiliar social and political forces. This is compounded by growing NGO influence and the fragmentation of news media, making stakeholder expectations harder to discern.

“Some stakeholders are extremely skeptical, so there is a real need for companies to understand that they must truly engage and build relationships,” says Elisa Peter, head of the Non-Governmental Liaison Service at the United Nations in New York. “There is still much mistrust of anything private, especially in the realm of public goods,” that is to say goods that deliver a general benefit to society – a company financing road-building in a poor country, for example.

It is clear that some kind of relationship can help navigate obstacles, but building truly productive alliances calls for a deeper commitment. Stakeholders are getting better at spotting businesses that try to simply buy their way into relationships, or that just pay lip service. Holding polite meetings or donating to local causes is only surface-level engagement.

Richard Caines, an adviser at the International Finance Corporation – part of the World Bank Group focused on building the private sector in developing countries – is alert to tell-tale signs of inauthentic engagement: “I sense that engagement is false when I can see no real thinking behind a company’s attempts to engage, when different members of management give inconsistent perspectives on an issue, when initiatives are referred to as ‘green’ as opposed to ‘strategic’ and when stated goals for corporate social responsibility or stakeholder engagement are not compatible with a company’s business strategy.”
“I sense that engagement is false when ... initiatives are referred to as ‘green’ as opposed to ‘strategic’ and when stated goals for corporate social responsibility or stakeholder engagement are not compatible with a company’s business strategy”

Richard Caines, International Finance Corporation – part of the World Bank Group
WHAT MAKES ENGAGEMENT PRODUCTIVE?

Just as tone-deaf efforts can be costly, attentive ones can pay dividends. Candid and open engagement can be a highly effective step towards dismantling barriers, opening markets, managing issues and forging a strong reputation.

It begins by understanding which stakeholders most affect your business and which groups influence those stakeholders. Then, it is critical to recognize key stakeholders’ core priorities, issues and motivations – and their expectations of foreign companies. A breakthrough can occur when companies develop ways to align their own ambitions and priority issues with those of the local market.

This creates “shared value,” according to a recent Harvard Business Review article by Michael Porter and Mark Kramer, both of Harvard University. Shared value, they believe, ultimately can give businesses a competitive advantage.

But establishing genuine engagement – and shared value – requires investing in relationships early. It carries an expectation of frank dialogue, the possibility of disagreements and roadblocks. Eventually, it should provoke real changes in behavior. Companies that make this investment will be viewed as genuine; those that do not could be deemed to be inauthentic and mistrusted.

RULES OF ENGAGEMENT

No two companies will face the same set of issues but all should follow some core rules of engagement:

From the top: As in all aspects of the business, effective engagement begins with a mandate from the top. Key managers, from the CEO on down, should be accountable for implementation of engagement efforts, with incentives set and monitored at all levels. That increases the chances that best practice will be woven into the business.

A good example of such a program is the focus by energy infrastructure operator National Grid on achieving ambitious greenhouse gas (GHG) reduction goals. The company is working towards a 45 per cent reduction by 2020 and 80 per cent reduction by 2050, and CEO and executive compensation are tied to progress towards these targets. Companies such as Intel, Xcel Energy and Shell all tie sustainability performance to pay.

All engagement is local: Trust is at the heart of engagement, so understanding and addressing issues that are important to local leaders can help foster that trust.

This is not the same as engaging on every issue that matters to stakeholders. Rather, common areas of interest can be prioritized based on an understanding of local needs.

For example, in Africa, GE’s Developing Health Globally program draws on GE products, expertise and employee engagement to address critical gaps in rural healthcare facilities. With an increasing emphasis on maternal and infant survival, the program has put additional focus on understanding and fulfilling needs related to emergency obstetric care and maternity/neonatal intensive care in hospitals and clinics.

Gathering intelligence: Gather and analyze intelligence from non-traditional sources as part of an “early warning system.” Social media is one such source, but there are many monitoring tools a company can use to spot new issues on the horizon.

Be open to input from unfamiliar sources. The UN’s Elisa Peter says, “As a general rule on stakeholder engagement, companies should make the effort to talk to people they rarely consult with. Similarly, in choosing the right partners it can be easiest to engage with the biggest organizations – that’s necessary, but not sufficient, because those organizations are not necessarily representative of community interests.”

Sleeping giants, ticking time bombs: Understand the motivations and influence of various stakeholders – from the sleeping giants who can support you to the ticking time bombs that can hurt you. The hierarchy changes over time and it is important to plan for that.

Listen closely: Companies wishing to be heard must be willing to listen. This also means having the internal channels in place so the information doesn’t stall or become distorted in the organization before it reaches management.

Also, avoid the hard sell. Many companies simply want to push their product messages out in local media. It is often more effective to be subtle, to begin by engaging in dialogue direct with stakeholders.

Be willing to act: It is not enough to just talk; companies must be willing to act, even if it means changing plans or altering strategy. If one is willing to compromise, lasting solutions are more achievable.

Start now: Engagement is most effective when not forced or rushed. Companies must invest in advance of the expected need, sometimes far in advance. It may be too late to search for allies once problems have arisen.
ENGAGEMENT IN ACTION
Most multinationals have sophisticated communications operations, but engagement in new markets requires another layer.

Douglas Michelman, Global Head of Corporate Relations at Visa, says, “In every market, we want to demonstrate that we are a trusted partner to our important constituents, and that nearly always requires a meaningful relationship.

“Real engagement must be localized. In every market – large or small – businesses are expected to be part of the fabric of that society. They are expected to help meet local needs or address local societal issues. Local constituencies – like governments and NGOs – are more likely to do business with you if they see you are doing things that fix problems at the national level or benefit local people and institutions.”

For example, in Pakistan, ethnic and religious warfare has forced millions of citizens to flee their homes and seek refuge in other parts of the country. Pakistan’s government faced significant challenges as they sought to provide relief to millions of refugees. The nation set up centers for internally displaced persons and tasked NADRA, the country’s national identity agency, to devise a way to ensure that financial assistance reached the people who needed it.

NADRA’s representative, Ali Arshad Hakeem, says: “The major challenge was to put in place a system where the displaced people would feel that they were a part of our society – and to do it very quickly.”

The government turned to Visa, which worked with the local United Bank and NADRA to create a system that issued Visa prepaid cards at sites that were convenient for displaced persons. Each was pre-loaded with $300 and could be refilled. The cards allowed people to purchase much-needed food and helped the government to quickly tackle a severe national problem.

THE ENGAGEMENT EQUATION
In the end, the engagement equation is simple: engagement builds trust and trust builds business. But engaging the right way requires more than just adjusting how a company speaks. Engagement is most effective when it is based on long-term commitment, and being open to change. Today, companies are expected to be active, constructive partners in the development of the markets they enter. If done well, engagement can help build the relationships necessary to do that – and boost growth prospects along the way. And sometimes, you have to do the hard work now to reap rewards down the road.

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CULTURAL DIPLOMACY

Culture played its part in the Cold War, but in the 21st century a new kind of cultural diplomacy is required. András Szántó of the Sotheby's Institute of Art in New York tells Brunswick Arts that philanthropists and corporate sponsors could make it happen.

Brunswick Arts works with many of the leading organizations and artists who practice cultural exchange around the world.

1. The New York Philharmonic Orchestra in North Korea in 2008, the largest contingent of US citizens to visit the country since the Korean War. Music Director Lorin Maazel, in the camel-colored coat, drew a parallel with the orchestra’s visit to the Soviet Union in 1999.

Photograph: Chris Lee
Probably one of cultural diplomacy’s greatest achievements was the loosening up of countries in Central and Eastern Europe during the Cold War. It was in those years that the United States most intensively used culture as a way of competing with its ideological adversaries. Art made it possible to showcase the values of freedom, openness and political progressivism as an alternative to the oppressive totalitarian arrangements in the Soviet bloc. And it worked.

I grew up in Budapest in the 1970s and 1980s, and remember being significantly won over by the US and Western culture. Seeing American movies and abstract paintings, listening to jazz and rock ‘n’ roll, reading Allen Ginsberg or Norman Mailer; was a big deal for us – a lifeline to the West. I later discovered that the fact that we were exposed to the work of abstract expressionist painters, or to certain movies and popular music, was not entirely due to coincidence. Through the investments of the US Information Agency (USIA), among other US government bodies, a variety of cultural programs were aimed specifically at people like me. For those who braved the walk past the surveillance cameras, the library of the US Embassy – in downtown Budapest and stocked with magazines and books – was a refuge. It was there in 1988 that I took my GRE exams, which qualify you for graduate school in the US, and landed a scholarship in New York.

The deployment of cultural diplomacy was a means of sending signals and building goodwill, which, in turn, helped to ensure that when that region began to open up economically and politically it gravitated quite naturally towards the West. To be sure, Central and Eastern Europe had a pre-existing affinity with western European and, by extension, American culture. Still, I am quite certain that, in some describable measure, our natural inclination to turn westward in those pivotal years had been stoked by our immersion in the creativity and artistic ferment that, we believed, represented the very essence of freedom and democracy.

For American cultural diplomacy, however, that high point turned out to be a swan song. The USIA, established by President Eisenhower in 1953, still received about $1.4bn annually as late as 1994, some time after the Berlin Wall fell. But triumphalism and cost cutting quickly put an end to that. By 1996, its main cultural exchange division, Arts America, was eliminated. In 1999 the USIA was dismantled and its functions were dispersed across a range of agencies. The United States clearly felt that there was no longer an ideological competition that it had to win. The “end of history” was upon us, to use Francis Fukuyama’s phrase for the idea that, once the Cold War was over, the era of ideological debate was done, and the Western liberal democracy ideology had won. There was no need to win over hearts and minds anymore.

Cultural diplomacy today

Or so the thinking went. Events in 2001, however, made it clear that rather than having reached history’s end, we had entered a state of transition. We were just switching gears.

Three key realizations have since emerged. First, there are indeed large parts of the world that need to be engaged – or re-engaged – through “soft” means, and failure to do so carries more risks of disruption and conflict. Second, cultural diplomacy today is being practiced in a much more complex world with more complex politics. We are no longer in the middle of a superpower competition between two clearly opposite sides, but in a multi-polar world with more and different voices competing for attention and legitimacy. In such a world, we no longer know exactly what it means to use culture as a means of building stable and vital relationships. Third, new technologies have become an important “interface” for people worldwide, with the internet making it possible for cultural exchanges to occur without artists or objects necessarily crossing borders.

The traditional tool kit of cultural exchange is, in short, being put to a test. We find ourselves in a moment of great opportunity, but also considerable confusion, about practicing and defining cultural diplomacy.

Soft power

Cultural diplomacy signifies creative engagement between countries or societies and, more specifically, the ways in which governments can use culture as a way of building bridges.

We can break this practice down into two dimensions. One is cultural diplomacy in the strictest sense, meaning the use of arts and culture as a tool of statecraft, specifically deploying cultural exchanges, artists, and art institutions to advance a nation’s political agenda on the world stage. The second dimension encompasses a wider array of cultural relationships, not necessarily under the direct control of government agencies, but constantly happening between cultural institutions, which, in turn, can be promoted or supported in various ways by states.

The idea that nations can get their way in the world not just with the use of armies or economic might underlyies another term commonly heard today, “soft power.” Joseph Nye, the Harvard Kennedy School Professor who coined the expression, defines the term as “the ability to get what you want through attraction rather than coercion or payments.” Educational exchanges, world expositions and sporting events are all means of generating such attraction, along with culture, “high” and popular. Nowadays, many ascendant world regions – including countries in the Middle East, Asia, Central and South America – are also seeking to advance themselves this way. And they are willing to invest heavily to do so.

Museums and cultural facilities are proliferating in the Gulf, notably in Abu Dhabi, Qatar and, to a lesser extent these days, Dubai. Such initiatives signal something about the...
intentions of these nations. The creation of the Guggenheim Abu Dhabi, the Zayed National Museum and the Louvre Abu Dhabi – new institutions on Abu Dhabi’s Saadiyat Island – in addition to being tourist destinations and part of a wide-ranging economic and urban development strategy, sends messages to partners and allies alike about the aspirations of that nation.

**Europe and the US**

Some countries take cultural diplomacy seriously, others less so. European nations that were once imperial powers have built up considerable cultural diplomacy apparatuses. A great deal of public administration expertise resides in the French system, for example, which includes a sprawling international network of institutes intended to project the influence of French culture and the French language worldwide. Germany is extremely active through its Goethe Institute, which often seeks to become an active hub of the cultural life of the cities in which it operates. Much the same is true of British Council outposts around the world.

The Netherlands’ approach is somewhat different. Being a small nation, it is less concerned with “selling” Dutch culture through festivals and programmes, and more actively involved in creating relationships between experts and institutions. The Dutch approach is predicated on the belief that when meaningful ties are established among artists and cultural decision makers, an ongoing exchange will naturally follow.

However, as Europe confronts its current fiscal crisis, this soft power infrastructure may soon end up on the chopping block. Policymakers in the Netherlands and elsewhere are increasingly looking across the Atlantic for alternative funding models. But it’s unlikely that they will find there an effective substitute for government-based cultural diplomacy.

The US relies heavily on the private sector and on public-private partnerships, as it does in all aspects of cultural policy, especially since the dismantling of the USIA. Recently, there have been some encouraging signs that cultural diplomacy is making a comeback, after years of focus on “hard” power and overt propaganda. There is more rhetorical support for soft power at high government levels. Officers in charge of educational and cultural exchanges are working up new initiatives. Nevertheless, this area remains transitional and uneven, and budgets remain meager by comparison with the past, or with other countries (the State Department’s cultural exchange budget is approximately $10m). And the most vexing practical challenge is that state support is not adequately counterbalanced with resources from private foundations.
In the American model, cultural funding is overwhelmingly outsourced to private organizations and incentivized through tax benefits. But international exchange is a low priority for most US foundations. A recent report from the Robert Sterling Clark Foundation found that funding cultural exchange programs constituted just one tenth of a per cent of American philanthropic activity.

**The Chinese dimension**

In Beijing, by contrast, I have recently observed what might be called a quintessential example of cultural diplomacy, in this case, between China and Germany. China is currently building a hundred museums a year. It has just opened the world’s largest museum, the redeveloped National Museum of China, on Tiananmen Square, directly opposite the Great Hall of the People and in the shadow of the Forbidden City.

There could be no more symbolic site for the institution, which is where China tells its story to the world. The National Museum is currently hosting its first major international exhibition and the event is being co-organized with three museum systems in Germany, encompassing 37 collections, which are loaning almost 600 works. The exhibition is about the European Enlightenment – a choice of topic that has raised eyebrows within and outside China.

Not only is the German Foreign Ministry providing more than €6.5m (€9.3m) to directly sponsor the project, but the architects of the expanded museum are German; the Goethe Institute of Germany is providing educational programs, the Stiftung Mercator, a private German foundation, is hosting a series of expert salons and car manufacturer BMW is the corporate sponsor. All this is happening under the auspices of the heads of state of China and Germany, with signing ceremonies having taken place in the German Chancellery and Beijing’s Great Hall of the People. The German Foreign Minister attended the opening and the exhibition was even included in a diplomatic communiqué on strategic collaboration between the two countries.

Although the festivities were somewhat clouded by tensions, following a clampdown on free expression by Chinese authorities concerned with unrest in the Middle East, the original...
aim of the collaboration was clear: the use of culture as a means of nurturing understanding and goodwill, and perhaps, to encourage a kind of dialogue that may not otherwise happen.

**Festivals and expos**

We cannot consider cultural diplomacy without mentioning global expo-style events such as the Venice Biennale. These represent quintessentially 19th and 20th century modes of engagement. The format, with nations setting up their booths and exhibiting trophy artists and work, seems almost quaint in today’s world of instantaneous communication. Yet the enduring attraction of these global events tells us something about the power of human networks that converge around a particular area of endeavor. They are the cultural equivalents of the Olympics.

There is a sense of occasion about these events that has not yet been successfully translated into the virtual realm. From the Cannes Film Festival to the Frankfurt Book Fair to Art Basel’s annual fairs in Switzerland and the US, the world appears to need such moments of communion. Fragmentation and globalization create a need to periodically bring people together in a single place and time for a unified experience – to make sense of it all.

**Impact**

This leads us to the question of impact. Beyond fanfare and symbolism, what can cultural diplomacy actually achieve? It is tempting to paraphrase American department store magnate John Wanamaker’s famous quip about advertising, namely that he knew half the money he spent on it was wasted, but he didn’t know which half. Yet, even if the direct impact of soft power is rather difficult to measure – as tends to be true for most cultural fields – it is undeniable and real. In a world where we are becoming ever more interdependent, building relationships based on a commonality of values and interests is of benefit not just for the cultural sector, but for the steady flow of global commerce and politics.

An extraordinary recent display of cultural diplomacy was broadcast to television audiences worldwide when the New York Philharmonic Orchestra undertook a tour to Pyongyang, the North Korean capital. It was a moment of connection between two nations that could not be more antagonistic. While the impact of such an event is almost impossible to gauge with crisp evaluation metrics, one can easily imagine a narrative where the ice begins to crack, opening the door to more broad-based economic exchanges, followed by the reassessing of political relations. Of course, all this well-meaning diplomacy can be undone instantly by thoughtless expressions of hard power.

**Opportunities**

To fully exploit its potential, cultural diplomacy and exchange could benefit from new 21st century support systems. In my opinion, there are tremendous opportunities for two sectors here in particular: one is US-style philanthropy, the other consists of corporations acting in the role of cultural sponsors.

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5. Works by 20th century artists such as Andy Warhol are also included in *The Art of the Enlightenment* exhibition. Warhol’s self-portrait harks back to a European tradition in which the artist depicts himself as the unwilling object. *Self Portrait, Andy Warhol, 1987* © The Andy Warhol Foundation for the Visual Arts/Artists Rights Society, New York, 2011. Photograph: Bruno Hartinger

Artists can harness culture to revive historic international relationships

The ancient port of Muziris in the south Indian state of Kerala was the landing point for Judaism, Christianity, Islam and a host of world cultures. It was the port of call for western Asia, the Mediterranean and East Africa, and the Far East, including China. Nearby Kochi was the center of the Indian spice trade for several centuries, and was known to the Greeks, Romans, Jews, Arabs and Chinese since ancient times. The new Kochi-Muziris Biennale festival, which will take place in late 2012, is the first of its kind to be held in India, and will celebrate the region's history as a place where differing cultures meet.

It will be a very international event. We will gather art from different parts of the world, and also bring a global audience to a large-scale platform for Indian contemporary art. India's cross-border cultural influences already include language, literature, music, dance, cuisine, fashion, cinema and sport. With the Kochi-Muziris Biennale we intend to establish the place of visual arts high on this list.

We plan to make Kochi a meeting place for art and artists from across the world, from Asia and Latin America, as well as Europe and the US. This confluence of art from different regions will generate an international dialogue on the relevance, recurrence and making of art in a globalized world. As one critic has put it, this biennale “not onlyembodies, but actively propagandizes the virtues of globalization.”

The Indian government is supporting the project with funding to establish its infrastructure, and the Kochi Biennale Foundation has on its board representatives from various government bodies. They know that by hosting this biennale, we will present Kochi as an aspiring global city. International visitors will experience one of the most spectacular and large-scale art events ever to be mounted in India and witness an unprecedented coming together of international and national artists. But at the same time they will be invited to engage with the remarkable backdrop of the region’s landscape, history, politics and culture.

We expect the event to attract both short-term and long-term investment – we are currently reaching out to partners and sponsors – and see it as a way to make our mark on the international scene in competition with other cities. More long-term, Kochi and the state of Kerala will be groomed to become a truly international cultural destination.

The Kochi-Muziris Biennale will take place in late 2012, and will be India’s first international festival of contemporary visual arts and the largest public art event ever held in the country. Programed by artists Bose Krishnamachari and Riyas Komu, it will include film, installation, painting, sculpture, new media and performance art. www.kochimuzirisbiennale.org

Bose Krishnamachari & Riyas Komu
Artistic Directors of Kochi-Muziris Biennale

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Philanthropy is one of America’s greatest cultural exports. One might logically conclude that in a post 9/11 world, cultural exchange would be one of the great philanthropic opportunities of our time. After all, the retreat of the US government from this field left a vacuum for private philanthropy to fill. Unfortunately this hasn’t happened.

As mentioned, the US philanthropic system remains, to an overwhelming extent, domestically focused. No wonder that much of the world knows America through its popular music and movies, which are aggressively promoted by globally minded corporations. However, this also means that cultural exchange is an area where one of the 1,200 billionaires that one reads about in Forbes magazine could, with relatively modest investment, quickly become a significant impact of this yet-to-be identified benefactor.

Multiplier effects through partnerships, matching grants, and inspiration to other funders would dramatically broaden the funding base for cultural exchange a natural opportunity to serve as partners to government and arts organizations.

Conclusions

In a recent debate in New York, someone in the audience asked an important question: Why is it that when we talk about cultural diplomacy, we ask what the cultural sector can do to help advance national interests, whereas when it comes to most other sectors, for example the auto industry or the software industry, we ask what the government is willing to do to promote that sector abroad? Who is supposed to be supporting whose interests?

It’s a valid question, and it points to an important caveat about cultural diplomacy. When these linkages happen between governments and the arts, the autonomous goals of the cultural institutions must be respected. They should not in any way be seen as merely doing the work of governments. Tact and maturity is required to work these relationships. When they are done right, everyone gains.

Even so, cultural diplomacy is not without its skeptics. Political and economic calamities can overshadow cultural interactions, setting countries back months or years on the road to building better relationships. People convinced about the potential of cultural diplomacy are not so naive as to believe that it can paper over the actions of repressive rulers or fiscally and environmentally irresponsible governments. In times of epic turbulence, cultural relations cannot take precedence over people’s most urgent and basic needs.

Yet even amidst the most disturbing crises, eventually a moment comes for rebuilding and reopening a society, and this next phase will always find culture in the foreground. The temples of Angkor in Cambodia, for example, have been restored with the assistance of various countries – Japan, France, the US – each reflecting their own particular mechanisms and attitudes about what that work consists of. The story was part of the renewed acceptance of Cambodia after a period of international isolation.

As new practices of cultural diplomacy arise, it is an undeniably positive development that the arts are operating on an international scale. There remains enormous potential in the use of culture to build more peaceful and enduring relations between countries.

Andrés Szántó, Ph.D. is a writer, researcher, and consultant whose work spans the worlds of art, media, policy, and cultural affairs. He is a member of the senior faculty of the Sotheby’s Institute of Art in New York and the former Director of the National Arts Journalism Program at Columbia University, where he helped organize an international conference on cultural diplomacy, Arts & Ministries. A contributing editor to The Art Newspaper and co-founder of Artworld Salon, he has written for The New York Times, the Los Angeles Times, Artforum and many other publications worldwide.

Brunswick Arts was set up in 2001 to provide strategic communications advice to arts organizations, corporations, charities and the not-for-profit sector. It has teams in London, Basel, Berlin, Paris, Stockholm, Beijing, Abu Dhabi, Dubai and New York.

Next year, Brunswick is supporting UK Now, one of the biggest celebrations of British culture to be held in China, highlighting the best of British arts and creativity and the breadth of cultural engagement between the UK and China. Following the success of China Now in 2008, which showcased Chinese culture and was held in London to coincide with the Beijing Olympics, UK Now will run for six months around the London 2012 Olympic Games events. The program will be managed by the British Council in partnership with HSBC and Brunswick. If you would like to find out more, or be involved, please contact:leigh.gibson@britishcouncil.org
RESEARCH: SOCIAL MEDIA AND BUSINESS JOURNALISM SURVEY

IT STARTED WITH A TWEET: HOW SOCIAL MEDIA IS SHAPING THE NEWS

— Andrew Gunn, Brunswick Research, London
— Jennifer MacDonald, Brunswick, New York

KEY FINDINGS
Up to one in seven of all published business stories originate via social media.

Social media is increasingly the most influential source of stories published by business journalists.

Twitter is seen as the most useful social media resource, followed by blogs, Facebook and LinkedIn.

Imagine this: you are a reporter from The Wall Street Journal and are writing a story about the US federal “Cash for Clunkers” program (officially known as the Car Allowance Rebate System, it offers up to $4,500 to people who trade in their old car for a new model with better fuel economy). For your article, you need to talk to someone who is familiar with the program. What do you do?

In the pre-social media era, you would have browsed through old press releases or made some calls to your contacts in the car business. Today you would just tweet or post a Facebook update: “Looking for information on Cash for Clunkers program ASAP.” The media relations person at an automobile company – by “following” you – would see the tweet and call you with the information.

Or imagine you were following the developments of car maker Saab. If you focused your attention purely on official announcements, you would have missed the tweet from entrepreneur Vladimir Antonov, confirming for the first time that he had officially filed for bankruptcy. In the pre-social media era, you would have browsed through old press releases or made some calls to your contacts in the car business. Today you would just tweet or post a Facebook update: “Looking for information on Cash for Clunkers program ASAP.”

Social Media Survey Highlights
Brunswick Group recently conducted a global survey of business journalists and their use of social media. In the survey, we interviewed more than 1,000 business journalists from print and broadcast media in 35 countries and asked them how they used social media platforms. The findings show that social media is increasingly the most influential source of information for stories published by business journalists, whether it is the initial seed of an idea for a story or a main tool in gathering information. The survey also shows how social media evolve over time.

Social media help generate ideas. Around 90 per cent said they had taken information from a social media site. Some 66 per cent said that information found on social media had led to a published story. Overall, up to one in seven of all business articles written today are generated by something a reporter first spots on social media.

The future is social media. According to the survey, 72 per cent of reporters believe social media will play an increasingly important role in providing content for their stories.

Social media are tools not primary sources. Another finding is that while reporters may identify a story idea via social media, less than half feel that the source influences the quality of their final article (although more think the influence on quality is positive rather than negative). That is to say, the journalists surveyed believe the quality of stories still relies on their diligence, aggregation of sources and analysis of the issues. As Dan Patterson of ABC News Radio recently tweeted: “Twitter is a tool, the web is a medium, and journalism is an action.”

Twitter is ahead for now. When asked which sites provide the most valuable information, Twitter was rated highest, followed by blogs. However, no single blog received more than a handful of mentions (and those namechecked more than once were often blogs run by established media such as the Financial Times and The WSJ, or online financial news services such as SeekingAlpha). Facebook and LinkedIn were just behind in third and fourth place, respectively, though Facebook is now actively encouraging journalists to make use of its platform as an information tool; it recently launched a platform specifically for journalists.

LinkedIn is gaining ground. In our survey, 16 per cent of respondents considered LinkedIn, a social networking site for professionals, as the most valuable social media source of information. Many will be members of groups on LinkedIn which are either relevant to their branch of journalism, or the beats they cover. Through networking groups like these, reporters can uncover industry trends and check up on expert opinion. Journalists also use LinkedIn to keep themselves updated on senior level changes and new hires at organizations they cover, by following official company pages. For that reason, companies should keep their profile on LinkedIn up-to-date, and also consider joining sector and journalist groups on the platform. This is a two-way relationship; journalists will be more aware of the company’s news, and the company can stay up-to-date with the topics a reporter is covering.

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The increasing importance of social media

Various information sources have increased in importance over the past year, though blogs (including micro-blogging platform Twitter) and social networks (including Facebook and LinkedIn) have shown the greatest rise in influence.

Sources that journalists say have become more important in the past year

- Blogs, micro-blogs such as Twitter, message boards: 43%
- Social networking sites such as Facebook, LinkedIn: 32%
- Real time subscription information services: 25%
- Business media (national, international, trade press) – online: 25%
- Google Alerts: 25%
- Primary research: 24%
- Information direct from companies: 21%
- Analyst research: 16%
- Information from PRs: 13%
- Online video services: 8%
- Business media (national, international, trade press) – in print: 7%

Current influence of social media

Nine out of 10 journalists have been prompted to investigate a story by social media: three-quarters by blogs and half by Twitter. Two-thirds of business journalists say that at least some of their stories originate from social media, around half from blogs.

Use of social media

- as a prompt to investigate an issue further
- as a foundation for a published story

Stories sourced from social media

Around one in seven of all stories may originate from social media – slightly more in North America than in Europe.

Proportion of published stories sourced from social media

- Almost all: 0.5%
- The majority: 2%
- About half: 8%
- Hardly any: 19%
- A minority: 38%
- None: 33%
The social media imperative

As the survey results underline, it is no longer enough for a company simply to conduct background briefings, issue a press release or make a telephone pitch to a journalist. Companies also need to follow key media contacts on social media, keep abreast of which social media are most used and in what way, and generate their own content.

When putting out content via Twitter, company statements and messages need to be communicated in just 140 characters. Companies should also get into the habit of using “hashtags.” Among Twitter users, hashtags are used to make it easier to search for tweets about a certain topic; users include a keyword preceded by the # symbol in their tweet.

Some in financial circles have also developed the “dollar sign” tag. The dollar sign is similar to a hashtag but is specifically associated with stock prices and is widely used by financial analysts, day traders, and finance bloggers and journalists. For example, a financial journalist who covers technology would search for $GOOG or $MSFT. Putting a hash tag or dollar sign into your tweet makes it more likely that a journalist interested in what you are communicating will see it.

No longer an option

This growing importance of social media is not surprising considering editors at traditional media outlets are increasingly telling their reporters to embrace blogs as sources. Last year, Peter Horrocks, director of the BBC World Service, told his news reporters to use social media as a “primary source” of information. “This isn’t just a kind of fad from someone who’s an enthusiast of technology,” he told them. “I’m afraid you’re not doing your job if you can’t do those things. It’s not discretionary.”

While social media becomes ever more influential as a source of information, it is unlikely that it will ever actually replace more traditional information sources. A tweet will never replace a face-to-face meeting with a CEO, for example, which will always have more impact on the angle of a story. However, our survey shows that posts on sites like Facebook and LinkedIn, key blogs, and tweets can, and do, spark initial interest in a story, and add clarity or new information to developing stories. As such, journalists in traditional media will rely on them more and more.

Andrew Gunn is a Director in Brunswick’s London office and a member of Brunswick Research, the firm’s opinion research practice.

Jennifer MacDonald is a former journalist at CBS News and is now an Associate in Brunswick’s New York office.

Social media’s impact on quality

Significantly more respondents see social media’s impact on the quality of published stories as positive rather than negative (by seven to one).

Impact of social media on quality of written stories

<table>
<thead>
<tr>
<th>Positive</th>
<th>Don’t know</th>
<th>Negative</th>
</tr>
</thead>
<tbody>
<tr>
<td>37%</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>Neutral</td>
<td>52%</td>
<td></td>
</tr>
</tbody>
</table>

Most valuable social media information sources

Twitter is the source that provides the most valuable insight for published stories, followed by blogs and two of the major social networking sites: Facebook and LinkedIn.

Social media sources that provide most valuable information – top three mentions

<table>
<thead>
<tr>
<th>Source</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Twitter</td>
<td>28</td>
</tr>
<tr>
<td>Blogs (various)</td>
<td>18</td>
</tr>
<tr>
<td>Facebook</td>
<td>17</td>
</tr>
<tr>
<td>LinkedIn</td>
<td>16</td>
</tr>
<tr>
<td>Message boards (various)</td>
<td>4</td>
</tr>
<tr>
<td>News sites</td>
<td>3</td>
</tr>
<tr>
<td>Google (including Alerts)</td>
<td>2</td>
</tr>
</tbody>
</table>

Future importance of social media

Three-quarters of respondents believe social media’s future importance in influencing content and angles of stories will grow.

Future importance of social media on content and angle of stories

<table>
<thead>
<tr>
<th>Increasingly important role</th>
<th>Not an increasingly important role</th>
<th>Don’t know</th>
</tr>
</thead>
<tbody>
<tr>
<td>72%</td>
<td>23%</td>
<td>5%</td>
</tr>
</tbody>
</table>
This is Not a Bus

By Rurik Ingram, Brunswick, London

Buses are not cool. As soon as they can afford it, most people go out of their way to avoid using them. But when he was Mayor of Bogotá, Enrique Peñalosa reinvented and rebranded the bus. Now Bogotanos don’t say they’re taking the bus, they say ‘I’m taking the TransMilenio’.

Enrique Peñalosa, former Mayor of Bogotá, is passionate about public transport. “I don’t judge the success of a city by how many people own cars,” he says. “I judge that city by how many rich people take the bus.” Bold and uncompromising, Peñalosa is endlessly quotable on topics such as urban planning, public spaces and the role of transportation. This may be music to the ears of many city dwellers who have had to put up with congestion and pollution, but it jars with car owners who fight for their rights with equal passion.

Peñalosa has been embroiled in the politics of transportation for many years. When elected mayor of Bogotá in 1998, he realized that he had to do something radical to tempt people to use public transport in the Colombian capital and to communicate his vision for a better city. Rather than try to argue the case for the unloved bus, he decided to reinvent it.

Peñalosa’s scheme was created as “an integrated mobility strategy” for the city’s population of more than 7m. At its heart was TransMilenio (opened in December 2000), a bus rapid transit (BRT) system with dedicated bus lanes and elevated, station-style stops. The largest of its 1,200-strong fleet are articulated “bendy buses” with three sections that can carry up to 260 passengers. A single-trip fare is around 52 cents.

Peñalosa’s scheme had several elements in addition to the main bus lines, including nearly 200 miles of cycle paths (ciclo rutas) and cycle parking areas at bus terminuses, a system of pedestrian walkways that linked into the bus system, and a network of smaller green alimentadores, or feeder buses, that bring people in from outlying areas.

Peñalosa’s feistiness is a legacy of the many battles he has had to fight and the many enemies he has made in his outspoken crusade against the car. When he became mayor of Bogotá, there was a state of near anarchy when it came to parking in the city – drivers were using sidewalks and shopping streets at will and forcing pedestrians on to the road. Peñalosa installed traffic barriers to reclaim the sidewalks and was nearly impeached for his trouble. “Parking is not a constitutional right,” he says. Many drivers disagreed.

Peñalosa backs up his pro-bus argument with hard numbers. “Traffic congestion is never solved by building roads,” he says, echoing a maxim of urban transportation: that adding more roads simply brings more cars. He worries that the developing world is too timid when it comes to city and transport planning; countries are quick to follow the example of established cities, and inbound investment tends to focus on roads and railways. “Subway systems are just too expensive,” he says. “One kilometer of railway costs between $200m and $250m to build, whereas the equivalent amount of bus rapid transport network costs more like $10m. Operational costs are much lower too.” Also, a subway line can take years to plan and build – by which time the people and areas it was meant to serve may have shifted elsewhere.

TransMilenio was a concept borrowed from Curitiba, a planned city in southeastern Brazil, whose 1980s BRT has inspired several imitators worldwide, including the Metro Orange Line in Los Angeles, California. Peñalosa’s version captured the imagination of Bogotanos, but it wasn’t all plain sailing. The idea had to be sold not only to potential passengers but also to existing bus companies and their staff.

Before TransMilenio, Bogotá had thousands of small independent minibus operators vying for business and clogging the streets with competing services. The mayor sought the advice of McKinsey, the consultancy, and secured the backing of local financiers for a plan to pay local bus operators to deliver the TransMilenio service.

The solution says much about Peñalosa, who is both a member of Colombia’s Green Party and the author of Capitalism: The Best Option. Born in Washington, DC he is a dual national who studied at Duke University in North Carolina. He shrugs off the idea that he is any kind of leftist eco warrior. Rather, he sees himself as a pragmatic politician and advocate for sustainable urban development.

In Peñalosa’s scheme, a system for car access to city areas which rotates based on...
part of that journey, Peñalosa succeeded in lifting the stigma of buses and bikes. The system has found support with businesses in Bogotá. “Developers are working along the routes, bringing with them further infrastructure improvements,” he says. “The TransMilenio is good for business.” Despite recent complaints about overcrowding and problems with personal security, a survey in 2010 found that more than 79 per cent of Bogotanos rated the system as good or very good.

Peñalosa’s ideas stretch beyond transport, and encompass the whole urban experience. “Shopping malls have replaced parks as places for people to meet,” he says. “We need big open spaces, like Central Park, in our city, to make people healthy – and happy.”

A plan to convert the exclusive Country Club of Bogotá into a public park partly cost him the mayoralty in 2001. But Peñalosa has been busy developing an international reputation, spreading his TransMilenio and urban planning gospel. He is up for election again later this year and his poll numbers have been good. “I hope to pick up where I left off,” he says.

Enrique Peñalosa is, of course, a fan. He recognized the importance of linking cycling to public transport early on. “People rarely use public transport out of love for the environment. Bicycles are a different matter. People ride them because they are inexpensive, fast, but also because they are fun,” he says. Bogotá had some bicycle-friendly policies before Peñalosa became mayor – the ciclovías, or temporary bike paths, close roads to traffic for seven hours on Sundays, when a million and a half cyclists and pedestrians take to the streets.

By “rebranding” bus travel to make it feel like an upmarket alternative to the city’s old bus system, and making cycle riding an important part of that journey, Peñalosa succeeded in

IN PRAISE OF TRANSMILENIO

The success of Bogotá’s TransMilenio has helped spread the word about the benefits of a well-planned urban bus system. In a report five years ago commissioned by the US Federal Transit Administration (FTA), TransMilenio was praised as “one of the world’s premier Bus Rapid Transit (BRT) systems.” The report described many benefits of TransMilenio, including its advantages over rail. An alternative heavy rail proposal would have provided 18 miles of rail-line for a total cost of just over $33bn, amounting to a cost of $169m per mile, the report noted. It would have carried an estimated 795,000 passengers per day, equating to 16 per cent of the city’s total transit trips.

In comparison, TransMilenio’s first phase provided more transitway (25.6 miles) and similar ridership levels, for a total capital cost of $340m, almost one-tenth of the cost of the heavy rail option. The FTA was particularly impressed by the scheme’s use of the private sector. “One of the greatest achievements of the TransMilenio system was the successful implementation of a concession contract-based system for regulating service operations,” the report noted. “Paying the concession holders on a per-kilometer basis as opposed to a per-passenger basis facilitated healthy competition for the market as opposed to the unhealthy competition ‘in the market.’ This has undoubtedly enhanced operating efficiency, while reducing the fiscal risk imposed on Bogotá’s city government.”

London’s imagination. As sponsored by Barclays bank, have captured up and dropped off across town. “Boris bikes,” Johnson’s most visible achievement has been a Conservative Mayor, who is also a keen cyclist. Scheduled to meet Boris Johnson, London’s transit out of love for the environment. Bicycles are a different matter. People ride them because they are inexpensive, fast, but also because they are fun,” he says. Bogotá had some bicycle-friendly policies before Peñalosa became mayor – the ciclovías, or temporary bike paths, close roads to traffic for seven hours on Sundays, when a million and a half cyclists and pedestrians take to the streets.

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The success of Bogotá’s TransMilenio has helped spread the word about the benefits of a well-planned urban bus system. In a report five years ago commissioned by the US Federal Transit Administration (FTA), TransMilenio was praised as “one of the world’s premier Bus Rapid Transit (BRT) systems.” The report described many benefits of TransMilenio, including its advantages over rail. An alternative heavy rail proposal would have provided 18 miles of rail-line for a total cost of just over $33bn, amounting to a cost of $169m per mile, the report noted. It would have carried an estimated 795,000 passengers per day, equating to 16 per cent of the city’s total transit trips.

In comparison, TransMilenio’s first phase provided more transitway (25.6 miles) and similar ridership levels, for a total capital cost of $340m, almost one-tenth of the cost of the heavy rail option. The FTA was particularly impressed by the scheme’s use of the private sector. “One of the greatest achievements of the TransMilenio system was the successful implementation of a concession contract-based system for regulating service operations,” the report noted. “Paying the concession holders on a per-kilometer basis as opposed to a per-passenger basis facilitated healthy competition for the market as opposed to the unhealthy competition ‘in the market.’ This has undoubtedly enhanced operating efficiency, while reducing the fiscal risk imposed on Bogotá’s city government.”

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FOR THE FACEBOOK GENERATION, PRIVATE GETS MORE PUBLIC

BY DOMINIC MCMULLAN, BRUNSWICK, LONDON

Private stock marketplaces have added a new dimension to the capital markets. What does their growth mean for the economy, for public oversight and for the dialogue between companies and their investors?

Since the 1990s boom in new public share listings...

In 1999, as the dotcom boom neared its peak, hundreds of companies floated. The 24 largest totaled $70.96bn market capitalization.

...private stock markets were spawned to fill the gap

In early 2011, five of the most prominent internet companies had a total value of $71.3bn, based on private equity market valuations.

Stock markets have recovered since the financial crisis and there has been a resurgence of the initial public offering (IPO) pipeline this year. But the slump in public stock markets in recent years created a need for an alternative. Since the peak in 1996, when more than 900 companies launched IPOs, successive market crises took their toll: there were just 85 new US listings for 2008 and 2009 combined, according to Dealogic data. Private stock marketplaces, such as SecondMarket, sprung up to fill the gap. They have also proven to be a good training ground for companies, such as LinkedIn, that ultimately want to go public (see left).

Also, these markets are one of a growing number of alternatives for companies that may want to stay private at a time when public company regulation has become too burdensome.

What are the implications of this new order in the capital markets?

Felix Salmon, a finance blogger at Reuters and one of four people whose thoughts on the subject we sought, argues that with more alternatives for companies to raise new capital and for early investors to realize the value of their shares, a public listing is no longer as compelling as it once was. Furthermore, oversight of companies doesn’t necessarily require them to go public. However, Salmon recognizes that something may be lost with the dwindling of the public markets: it will make it harder for people of ordinary means to buy a stake in growth companies.

The irony, as several of our contributors point out in the following pages, is that rules and regulations that were put in place to give investors a fairer deal may have become so burdensome and costly that they have deterred banks and companies alike. Catherine James, Head of Investor Relations at Diageo, says that while SEC rules may be understood by savvy investors, the fact that they are not universally understood means they are not having the desired effect. Indeed, they appear to be causing more ambiguity than transparency.

Even before the additional regulatory burden, trends in banking were conspiring against the public markets. Kathryn Coffey,
has this been a 900 here for those that are private, what are the options? Companies may be considering for the next decade. SecondMarket has seen sharp growth in private stock trading, but its very success – especially in creating a market for Facebook shares – has attracted the attention of the Securities and Exchange Commission (SEC). SecondMarket's founder and CEO, Barry Silbert, whose article appears on page 65, says the various stakeholders are striving to determine what is best practice. He argues that it is often in their best interest to give details about their operations and performance that go beyond regulatory requirements, especially if the ultimate aim is to go public.

The wind may be blowing in favor of private stock markets. The SEC has been in dialogue with companies, including SecondMarket, since early 2011 about setting rules for these new marketplaces. One SEC concern had been excessive valuations in the private stock markets. However, those worries should have been assuaged by the fact that LinkedIn's shares soared after IPO, suggesting the private market valuation was not inflated.

While it is clear that companies are staying private for longer, the nature of being private is changing radically. Kathryn Coffey argues that private companies need to communicate just as well as public companies from an early stage. “A good communications program is something that I advise my clients to think about from early on... even before they engage with public market capital providers,” she says, adding that executives today need to be well versed not just in communicating their financial performance but their core values too.

Whether they are private or public, companies can face scrutiny from a variety of sources. Pharmaceuticals and food companies, for example, are subject to vigilant oversight from the Food and Drug Administration in the US, as well as a host of consumer watchdogs, as Felix Salmon notes. Also, companies such as Facebook and Twitter have featured heavily in the public debate about privacy as internet communication evolves new formats.

In private market environments like SecondMarket, companies are also well advised to nurture their profile long before they might want to create a market there. As Barry Silbert points out, the lead-in period for a company launching on SecondMarket is perhaps two years in order to generate a sufficient following. That is a very different timeframe to launching a traditional initial public offering.

Welcome to capital markets in the era of social networks.

Dominic McMullan is a Director in Brunswick’s London office, having spent the last three years in the firm’s New York office. He specializes in cross-border corporate reputation and transaction campaigns.
The public stock markets in the West have been in decline for more than a decade. Since the dotcom bust in 2000, the market for initial public offerings has never fully recovered and the number of companies listed on American stock exchanges has nearly halved since its peak in the late 1990s.

Is this decline of the public stock markets against the public interest? Will companies increasingly operate under the radar of public scrutiny? Are there implications for our ability to value companies, or for the economy at large?

The reasons for the decline are pretty clear from the point of view of the companies. With slow-growth economies and low interest rates, it has been cheaper for companies, by and large, to raise money in the debt markets rather than by selling equity. At the same time, companies have been put off by increasingly onerous corporate governance rules, particularly those that came into effect with the passage of the Sarbanes-Oxley Act in 2002, a response to Enron and other corporate scandals, one of which in particular has been to make public during the dotcom boom surely wouldn’t again opt to take on such a regulatory burden.

Also, companies now have many more ways to realize the value of their equity. Though the financial crisis has taken its toll, investors have grown in sophistication; for example, there is an active secondary market that allows private equity owners to exit a company without having to go to the public markets. Meanwhile, operators such as SecondMarket will facilitate controlled markets for private companies so their shares can be traded, rather like a sophisticated eBay for private company shares.

What about the question of valuation? Surely, the argument goes, a public market is needed in order to arrive at the best price for a company’s shares? I think this is myth. The idea that there is some set of facts out there that if known to the world would allow a share to trade at the “correct” price is bogus. A company’s stock is worth whatever someone is willing to pay for it and publicly traded share prices are often driven more by broad market moves than any specific understanding of the company.

You can determine a share’s price via a public stock exchange or through various other means, such as in a controlled private market or by an agreed formula as law partnerships do. There is no particular reason to believe that one way is better than another. Indeed, private valuations will tend to better reflect a company’s intrinsic value and be less susceptible to the vagaries of the stock market and its short-termism. In public markets, a company’s relationship with its investors takes up an enormous amount of management time with questionable benefits. Arguably, private companies these days are able to achieve higher valuations than publicly traded ones.

The broader question of public interest is less clear. The public stock markets are, of course, still enormous – valued at around $17 trillion in the US alone. An active public stock market has been for many decades a proxy of the broader economy’s health and has provided a gateway for popular participation in the expansion of American capitalism. However, as fewer new companies are added to replace those that disappear through merger or failure, aging dinosaurs increasingly populate the public company world. There are fewer opportunities for ordinary investors to grab a piece of the action in new-industry companies, like Twitter or Facebook.

It doesn’t necessarily follow that scrutiny of the corporate sector has to suffer. When companies go public you mainly get more transparency of their finances, which is often the least interesting bit of what they do. I do not buy the hypothesis that private companies are necessarily worse at communicating because they do not have the Securities and Exchange Commission breathing down their neck. There are many examples of public companies that are inscrutable in many important aspects, despite having to make public filings.

Conversely, there are other lines of public oversight that apply to both public and private companies – the Food and Drug Administration oversees companies on safety, for example. With companies like Facebook and Twitter, the public debate has focused on broader issues of privacy and the way that certain fundamental aspects of our lives are changing.

The opportunities to invest are becoming more restricted to the rich and privileged, but if those charged with broad oversight of private and public companies do their job, then it should keep them honest.
The path to a public listing has changed radically – so has the way companies must communicate with the market

SecondMarket, founded in 2004, emerged from the fragmentation and failings of the financial markets and is now the largest centralized, transparent platform for buying and selling alternative investments.

Aiming to be a destination where investors could discover new opportunities in alternative assets, our first asset class was restricted securities in public companies. We’ve since expanded into other markets including bankruptcy claims, limited partnership interests, and structured products, such as auction-rate securities and mortgage-backed securities. In 2009, we launched our private company stock market, which has become our fastest growing investment class.

Anyone can sell assets on SecondMarket, but buyers must be “accredited investors,” meaning they must have $1m in assets or earn more than $200,000 annually for three consecutive years.

We received significant public attention initially for creating a market in Facebook shares. It began in early 2008 when a former Facebook employee approached us and was interested in selling his shares. We conducted that first transaction and facilitated trades for friends of the original seller. We then spent about a year conducting due diligence to determine the long-term viability of the market, seeking input from private company CEOs, entrepreneurs, venture capitalists and others in the ecosystem, and determined there was a real lack of liquidity for private companies.

In April 2009, we officially launched the private company stock market as a response to fundamental problems in the US public stock markets, and that has broadened considerably in the past year. Over the past 15 years, there have been several systemic changes in the public markets, resulting in a lack of market support for growth-stage companies:

First, the shift to online brokerages from human brokers eliminated a key marketing channel for small- and mid-cap companies. For decades, brokers across the country made hundreds of thousands of calls per day recommending buying opportunities to investors. Those calls are rarely made today, as investors use online brokerages with much greater frequency.

Next, the market shift to decimalization meant that once the stock markets changed from quoting prices in fractions to quoting in decimals, trading margins were reduced. Profits that had funded equity research and sales support were significantly diminished and research reports for smaller companies essentially stopped being written, depriving companies of another critical marketing mechanism.

In 2002, Sarbanes-Oxley, [the law that tightened public company governance rules], also made being a public company much more expensive.

More recently, the proliferation of high-frequency trading has changed the dynamics of the public markets. More than half of the trading in public shares is done by high-frequency traders who require volume, velocity and liquidity that can only be found in large-company stocks.

All of these factors have made the public markets unsuitable for growth-stage companies. We believe SecondMarket can and should fill that gap. Until a decade ago, the IPO was the ultimate goal for entrepreneurs but times have changed. Today, companies are choosing to remain private or are taking longer to go public – nearly a decade on average, up from four-and-a-half years in the 1980s and 1990s. Thus, companies have a need for interim liquidity. SecondMarket can be seen as a kind of “spring training” for companies, giving them interim liquidity while they continue to grow and attract interest from analysts, so they will have the option to go public if they choose.

SecondMarket allows potential buyers to research a profiled company and to express an interest in investing. Private company equity holders can also express interest in selling shares. SecondMarket provides this user-generated data to the companies so they can determine whether they want to create a managed market.

Once a company decides to work with us, we provide it with the tools to design a customizable market, setting its own terms and parameters – including who can buy and sell and the frequency of transactions. There are minimum regulatory requirements regarding information disclosure but the company decides how much additional information to provide.

In short, the company controls its market and shapes its message. After all, each company has its own strategic reasons to establish a customized secondary market – to provide interim liquidity; to create an acquisition currency; to consolidate its shareholder base; or to retain and attract employees. Communication with employees and other shareholders is important for added transparency.

As the private company market continues to evolve, SecondMarket is expanding. Last year, we completed more than $400m in transactions in 40 companies’ stock. This year, we significantly revamped our online platform and added social components as well as information pages for thousands of private companies. The SecondMarket community now numbers more than 60,000. This is just the beginning for us.

BARRY SILBERT
— CEO, SecondMarket

“IT BEGAN IN 2008 WHEN A FORMER FACEBOOK-EMPLOYEE APPROACHED US TO SELL HIS SHARES”
Rules meant to level the playing field for investors seem to have made quality company research harder to find

Size, as they say, matters. When it comes to the level of interest and scrutiny, it is less a question of public versus private than of the size and importance of the company involved. Does a private company like Facebook get any less press attention than Diageo? No. In fact, it probably gets more as there is an added dimension of public intrigue because of the levels of personal wealth involved, as well as concerns about issues such as privacy.

But I would make a clear distinction between the formal communications required of public companies (the regulatory filings, the reports and accounts) and those required by stakeholders (the owners, employees, government agencies and the like).

Investors, rightly or wrongly, assume that big companies will act in the best interest of all their stakeholders and the bigger the company the bigger the assumption. At this point, I think, the same standards apply to public and private companies alike when it comes to most public responsibilities. Even if a company does not have financial regulators forcing it to make disclosures, the media will no doubt act as a regulator-by-proxy.

There is very little chance that a private company, such as Facebook, could ignore its responsibilities as a leader in its industry. As was seen with the privacy issue, the media can be relentless when they latch onto an issue and ignoring them will only exacerbate the situation. So, I do not think that companies – the larger ones, in any case – avoid the public markets in order to avoid scrutiny. I think the end game has not changed: all the big companies want to come to the market eventually to fully realize the value of their equity because of the added transparency, and to get that “quality stamp” that the public markets can provide as a safety net for investors.

However, there are clearly problems in the public markets that need to be addressed; problems of communication and clarity. In particular, the Securities and Exchange Commission’s (SEC) rules are not well understood by investors, or even by many investment analysts who investors rely on to interpret financial reports for them.

Any well-run company will have the internal controls in place to allow it to fulfill SEC obligations, but many investors do not fully appreciate what is required of companies and what protection SEC rules afford them. The really savvy investors will be able to scrutinize accounts for any digression from SEC rules and recognize red flags accordingly. This was the case for those who first picked up on weaknesses at Lehman Brothers – they properly understood the disclosures in the accounts.

However, some sectors are better served than others in terms of the quality of investment research. Certainly, this varies considerably from company to company.

In general, there has been a decline in the number of good research analysts doing in-depth, thematic research, as opposed to those just concentrating on stock-price movements. This means it is really difficult to attract the sort of investors that you want on your register – solid long-term investors – and this is especially the case if you are first coming to market. This has the effect of discounting the price investors are willing to pay for equity, which in turn makes companies more reluctant to come to the public markets.

So, what are the ramifications for communications? Clearly, the SEC rules and regulations need to be explained and understood better. Investors tend to judge our financial disclosures without understanding our context. That is the anomaly with the SEC regime: their rules are not having the desired effect. In fact, they are causing more ambiguity than transparency.

Catherine James is Head of Investor Relations at Diageo. She joined Grand Metropolitan, a Diageo legacy company, in 1984 as a financial analyst and has held various senior finance positions in the group.
The disappearance of the old ecosystem means companies must learn to engage a new milieu of financiers

When did the public markets become so unfriendly for companies, especially for the growth-oriented enterprises that featured so much during the boom times?

I think the big change came when Eliot Spitzer, New York’s zealous state attorney general (before he became its disgraced governor), forced through his settlement with Wall Street’s top 10 investment banks in 2003, changing the nature of equity research in the industry. The Spitzer deal, which was the culmination of his investigation into artificial stock price inflation and other alleged offences, forced a definite separation of research from investment banking, making research beholden to trading desks. Thus, the focus of the banks’ equity research departments turned to larger, actively-traded companies that provided a wider range of capital markets opportunities for the banks.

But even before the Spitzer deal, the range and quality of company research was shrinking. The trend was typified by the disappearance of the so-called CHARM group – five leading “boutique” Wall Street banks that were particularly influential in championing growth companies looking to debut on the public markets. All these banks – Cowen & Company, Hambrecht & Quist, Alex. Brown, Robertson Stephens and Montgomery Securities – were acquired at the end of the 1990s and disappeared into larger banking groups.

The refocus of investment research on very large-cap companies led to a brain drain from the banks, with the best research talent switching to buy-side firms or hedge funds. So, the high-profile research being disseminated by the banks became less and less supportive of the kind of companies that venture capitalists and others were looking to take public. All these changes meant there was no longer an army of people – trained bankers and syndicate desks – who were passionate about taking the next generation of companies to the public markets. The ecosystem of that world disintegrated and that created a lot of public company orphans.

To some extent, the old regime has been replaced by different market infrastructure. The expansion of capital pools such as secondary funds, as well as the various private market exchanges, have replaced some of the old bank functions. But all investors need to recycle their capital – venture firms need to return capital to partners, angel investors need to support the next start-up, owners and employees need a liquid market to sell their shares. In my view, eventually a company will want to go public, even if that is now happening much later in their life cycle.

What are the implications for communications? Companies need to consider carefully all these new and varied relationships with the capital markets. I advise my clients to think about communications strategy well before they engage with venture firms, private equity, or the public markets. This must go broader and deeper than just financial information; they must communicate their corporate values as well. They must also be well versed in the capital markets milieu. They must know that investors who take large stakes in companies often will try to exert influence and company executives must be able to withstand scrutiny of their strategy and their values.

It is good to be proactive. Some private company executives are skilled at preparing substantive reports with real insight into their industry and how they fit within it. I believe doing this forms meaningful relationships with their investors long before the company may go public. If a company discloses the reasons behind a disappointing quarter or a significant customer loss, for example, its willingness to be upfront creates goodwill and gives it breathing room.

Private and public companies need to devote time to communicate with all stakeholders, particularly their largest shareholders. That can be difficult for the public market “orphans,” especially given the added burden of the Securities and Exchange Commission’s Fair Disclosure rule (“Reg FD”), introduced in 2000, which requires them to make material non-public information widely available in a timely fashion. The irony of Reg FD and the Spitzer settlement is that while they were intended to give retail investors a fair chance, they have landed them with the task of digesting an enormous amount of complicated information without the filter of experienced research analysts. This means companies need to adopt proactive communications strategies – especially for their largest shareholders and especially around times of capital raising.

Kathryn Coffey is an independent consultant to senior management and investors of later stage private companies in high growth industries. She has had various senior banking roles, including head of the private placement groups at Seven Hills LLC and Deutsche Bank Alex. Brown.
Corporate communications doesn’t have to be serious. Sometimes being inventive, humorous and surprising is the way to go.

An informative, carefully crafted press release is no longer enough. More than ever, successful corporate communications is about grabbing the attention of your audience. Even the most sophisticated companies must now be more enterprising – and sometimes fleet-footed – in the ways that they engage.

Cupcakegate
Last December, as an annual holiday gesture, telecoms group AT&T distributed hundreds of luxurious cupcakes to employees of the Federal Communications Commission (FCC), as well as other federal agencies and a few journalists, in Washington, DC. The next day, Public Knowledge, a consumer advocacy group, leaked the cupcake distribution list – a mostly tongue-in-cheek move that also had a point to make about lobbying a day after an important FCC internet ruling. In a blog entitled “Cupcakegate,” Robert Quinn, an AT&T public policy executive, observed, “Inexplicably, Public Knowledge adopted an anti-cupcake agenda. Perhaps Public Knowledge is just upset that we didn’t send any to them. Well consider it done. They’re on the way.” Art Brodsky, Public Knowledge’s Communications Director, had to acknowledge that “[w]e did get some cupcakes and they were delicious (although there was considerable discussion whether they were better than Hello Cupcakes of Dupont Circle).” Even the usually poker-faced FCC rose to the occasion, proclaiming: “We’re pro open internet and pro-cupcake.”

Like, read this
There is still plenty of room for creativity in the humble press release. “The World’s Most Successful Media Moguls Align with Upstart Media Empire with the Goal of ‘Total World Domination,’” was the title of a press release from Vice, a fast-growing New York-based media business geared toward hip youth, written with the intention both of appealing to its core demographic as well as grabbing notice from financial editors. It did the trick. As The New York Times business column noted, “While DealBook receives dozens of press releases a day, this one jumped out at us.” Similarly, an online coupon company intrigued its target audience with the cleverly titled “Groupon Raises, Like, a Billion Dollars.” As the Financial News felt compelled to point out, “This is not a typo, but the exact title of a press release by the online coupon provider that has sparked debate…” That debate – about whether it was, like, the largest-ever venture funding for a private company – was, no doubt, a bonus for Groupon in its efforts to garner notice.

Words of pure awesomeness
Mitch Delaplane of Chicago-based PitchPoint Public Relations, took surreal irony a step further with his press release via PR Newswire, entitled, “The Most Amazing Press Release Ever Written.” As The Huffington Post observed admiringly, “Delaplane has written a press release that exists exclusively to call attention to its own greatness.” With head-spinning irony, Delaplane writes at one point, “I’m quoting myself again because the first quote didn’t do it justice. If you’re still reading this news release, then you know what I’m talking about when I say it’s something special. In fact, it’s 483 words of pure awesomeness.”

Taking Hef’s privates private
Not many business chiefs are responsible for their own tweets, and not many have more than 600,000 followers on Twitter. Still fewer can claim adult entertainment stars and Paris Hilton among their followers. One who can is Hugh Hefner, Chief Creative Officer and legendary founder of Playboy Enterprises. Having built a myriad following, Hef keeps his key audiences abreast by tweeting about anything from closing the take-private deal, to the launch of the iPad version of Playboy Magazine, to the latest antics at the Playboy Mansion. The size of his following is testament to the fact that he is keeping them informed and entertained. As the Twitter world grows exponentially, the tweets of Hef and the bunnies are retweeted many times over, as is the famous bowtied Bunny logo. Even some of the more corporate tweets are irresistible to some retweeters, such as the one about the take-private deal entitled: “Hef’s taking Playboy’s Privates Private.”

Roberta Thomson is a Director in Brunswick’s New York office. She is a qualified chartered accountant and specializes in financial communications.
RECIPE FOR SUCCESS

More companies are improving their corporate reputation by asking, “What is our purpose and how can that best be communicated?”

BY AMANDA DUCKWORTH, BRUNSWICK, SAN FRANCISCO
It’s a Saturday morning and today’s issue of The New York Times happens to include three front page stories in which reputation is a central theme. There is a Secretary of Defense whose reputation for candor earns him respect on the Hill; a hedge fund that has been shut down because its reputation was irretrievably destroyed by an FBI investigation; and a wealthy businessman whose political reputation clouds his philanthropic efforts.

It is a typical day’s coverage. Any day of the week, in any newspaper, magazine or blog, reputation is often at least an implicit part of many stories. Successive crises on Wall Street, corporate scandals and a deep economic recession mean that reputation has never been more intensely scrutinized. At the same time, a solid reputation has never been more beneficial – just consider the attention paid to the most prominent annual reputation rankings, such as Fortune magazine’s Most Admired Companies and Barron’s Most Respected Companies.

A RETURN ON REPUTATION?
Reputation matters, but how do you measure and attach value to it? Though no simple formula exists, there is plenty of evidence that shows a connection between reputation and key financial metrics. Brunswick examined the top 50 on Barron’s Most Respected list and found a strong correlation between a good reputation and both a higher stock valuation and a lower cost of capital (see chart opposite).

In our study, eight of the top 10 companies on Barron’s list enjoyed a premium valuation compared to their respective industry peers, as measured by price/earnings-to-growth (PEG) ratios, a widely-used benchmark. Similarly, using share price betas (a share’s volatility against the broad market index, which is a component in the cost of equity) nine of the top 10 have a lower cost of capital.

Reputation also has measurable marketing benefits. Research from Prophet, a strategic brand and marketing consultancy, showed that consumers will, when faced with a choice, usually buy a brand from a company perceived to have a stronger reputation. The research also found that consumers are twice as likely to purchase, four times as likely to
pay a premium, and almost 10 times more likely to recommend, products or services from companies with “leading” reputations versus “failing” ones. So strong is this trend that investing money in a corporate reputation program is arguably a more cost-effective way to market products or services than sinking money into individual product campaigns, particularly at a time when social media channels have put so much of a company’s fate into the hands of its customers.

A good reputation can provide an edge in employee recruitment and retention too, which has undoubted benefits, especially when competition for talent is on the rise. It also can make a critical difference in navigating the corridors of power, especially in Brussels and Washington, DC, where reputation is the currency of communications.

So, if it can yield such clear returns, how do companies build and maintain their reputation? What makes us respect and trust some companies and not others? Is it enough simply to invest in effective corporate branding?

On the last point, it is important to remember that while branding and reputation management are close cousins, they serve very different purposes. Branding is targeted at the customer and is designed to sell a product. Reputation management, on the other hand, aims to build trust and an emotional connection with all stakeholders in order to meet a broad range of business objectives. Put another way, a strong reputation enables a company to go from merely functioning to thriving – better able to raise money, to successfully enter new markets and communities, to recruit top talent, and to help shape legislation... and to sell products.

At any given time, companies we think of as thriving come easily to mind, such as Apple and Google. But why do we have this impression?

Based on Barron’s Most Respected Companies list, companies with strong reputations enjoy a premium valuation compared to their peers and a lower cost of capital.

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<th>Valuation*</th>
<th>Trade at premium 80%</th>
<th>Trade at discount 20%</th>
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<td>Cost of capital**</td>
<td>Lower cost of equity capital 90%</td>
<td>Higher cost of equity capital 10%</td>
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* Barron’s Top 50 Most Respected Companies, published in February 2011. We examined forward PEG ratios of the top and bottom companies on the list and compared them to the respective industry averages.

** Derived from CAPM; Cost of equity = risk-free rate + (beta * country risk premium). We compared company betas to the average beta for each company’s industry.

Early in my career, a CEO would have answered that question with one simple answer: it is because they deliver good financial results. Today, financial performance is just as likely to be driven by reputation as informed by it, and there are many other ingredients that go into the reputational mix. These include good leadership and management; social and environmental responsibility; ethics; employment culture and emotional appeal; as well as more traditional components such as quality of products and services and customer focus along with financial performance itself.

THE STATED PURPOSE

Reputation has to be seen as more than just the sum of its parts, rather as the embodiment of something larger. Bill Taylor, co-founder of Fast Company magazine and a regular contributor to the Harvard Business Review, says, “The most admirable companies don’t just sell competitive products and services. They stand for important ideas – ideas meant to shape the competitive landscape in their field; ideas meant to reshape the sense of what’s possible for customers, employees, and investors.”

Standing for an important idea or concept is the essential element of reputation management. At Brunswick we call this _purpose_; it is the “why” a company engages in its business besides making money. In _The High-Purpose Company_, Christine Arena found a strong correlation between purpose and reputation. Companies that paid most attention to their purpose enjoyed the highest reputations.

One immediately thinks about GE and IBM as companies that have gone a long way in defining their _purpose_; one imagining a better healthcare system and environment, the other committed to making the world a smarter planet.

Every company has a purpose, but some are better at expressing it than others and put more effort into communicating it. The role of a professional communications adviser, then, is to help companies define the “why” of their business and to then invest in that concept to benefit the company’s reputation. It’s a process that involves a number of components, including robust research and analysis of the company’s brand; its community efforts; history and prior issues; studies of analyst research and of reputation; and dialogue with management and key constituents to truly understand what can be defined as a company’s “core truth.” This then forms a critical foundation, a narrative that provides essential stability and direction to all subsequent corporate communications.

Take a company like McKesson, a healthcare company in the top 20 of the _Fortune 500_ that delivers vital medicines, other medical supplies and information technology to every part of its sector. That is what McKesson _does_; but _why_ does it do it – what is its purpose? That produces a different answer. McKesson’s purpose is to enable healthcare institutions to be better businesses so that, in turn, they can provide better care to patients. That is a broader mission and is, no doubt, a factor behind the company’s designation as an “industry champion” on _Fortune’s Most Admired_ list.

Companies with strong reputations do not communicate simply to meet disclosure standards, but engage with openness and consistency. Given that much of a company’s reputation is tied to leadership, the tone has to start at the top with the commitment of the chief executive and his team. The failure to nurture reputation at the top has been seen to cost companies, time and time again. Describing the contrasting outcomes for two executives in a story entitled _A Tale of Two CEOs_ in _The Wall Street Journal_, Alan Murray, the newspaper’s Deputy Managing Editor and Executive Editor Online, wrote, “For better or for worse, [being a CEO] is a much more public game involving a wider range of constituencies and requiring the skills of a politician.”

**THE PLATFORM’S FOUNDATIONS**

Most reputation programs are built on the concept of “thought leadership,” a business term that has gained currency since the mid-1990s. In its practical application, it means leveraging expertise to lead public debate on an important issue that is a natural extension of a company’s purpose.

With thought leadership, a company goes well beyond merely selling a product or service to leading national dialogue on an issue, and in doing so it burnishes its reputation and differentiates itself from competitors.

Intel is a good example of a company that has carefully built a reputation as an innovator leading advancements in how we live and work. In 2010, as the economy struggled to regain its footing, an Intel program called _Invest in America_ led a coalition of _Fortune 500_ companies in an effort to hire more young college graduates identified as the next generation of innovators. It lobbied the venture capital community to increase funding of young companies.
companies developing new ideas and generating jobs, and Intel increased its own capital commitment to venture financing.

Similarly, PepsiCo’s program, “Performance with Purpose,” addressed important environmental issues, such as clean water access and use of recycled packaging materials.

Meanwhile, Ford Motor Company’s Chairman, Bill Ford, is leading a national discussion on the future of “mobility.” His mission is to stimulate ideas that might solve the growing problem of chronic road congestion as millions of new cars enter the market.

In each of these cases, the company has made a deliberate choice to invest in a thought leadership program as a means of differentiating itself from the competition in the eyes of key constituencies – consumers, regulators, investors and so on.

THE TIME IS RIGHT
In the last few years, social media have brought about a seismic shift in how and where companies’ reputations are shaped. If reputations were previously managed day-to-day through major daily newspapers, they are now in a state of constant flux, with a conversation ongoing every minute of every day. This is not to say that traditional news titles such as The Wall Street Journal, the Financial Times or Fortune have lost their clout. They still wield influence, but they are no longer the only channel of influence to key audiences.

Social media have spawned new voices of influence and created new opportunities for direct dialogue between companies and communities.

If the concern of yesterday was making certain a reporter understood a company’s story, the concern today is making certain that millions of people understand what a company stands for.

It should also not be forgotten that traditional communications roles – investor relations, employee communications – continue to play an important part in the overall effort of building a company’s reputation. Every time an earnings report is released it is an opportunity to build the company’s reputation, even if the results are below expectations.

A company can build goodwill with investors and investment analysts by being as open and honest as possible – this is especially important in terms of getting analysts and financial reporters to help carry the company’s message to a wider audience.

Employees also are “reputation ambassadors” for a company, for good or for ill, so a company’s management should foster a culture of respect and engage with its employees on this basis.

In the end, managing reputation comes down to consistent behavior and communication with all stakeholders, bearing in mind the company’s “higher purpose.” It’s a long-distance run, not a sprint, and the importance of significant investment should never be underestimated. As Rupert Murdoch has said: “Our reputation is more important than the last hundred million dollars.”

Amanda Duckworth is a Partner in Brunswick’s San Francisco office. Her core competency is corporate reputation management. She has repositioned and reinvigorated established corporate brands and managed reputations through transitions, market challenges to business strategy, and full-fledged crises.
“We need to recognize that arts and culture are the magic of our experience, that we need them and thirst for them as human beings. These are the things that fill our lives, that allow us to learn about ourselves.”

“In the age of sound, the word and performance as a second. The image thatknack the

DIFFERENT TAKE

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“I want to give people a great night out, and if they haven’t been to the theater before – particularly young kids – give them an experience they won’t forget. And maybe the next time someone invites them to a play, they won’t make a face.”

“The breath that you feel between an audience and a performance is totally mysterious, completely ephemeral: brilliantly tangible and then it is gone.”

“I have tried over these eight years to choose work that was challenging. I’m constantly going off to fringe productions because you never, never know where you’re going to find the next really remarkable piece of writing. There is a wonderful plethora of work and imagination and you have to go seek it out.”

“In the theater, there are moments. There are performances. There are seconds. There is silence. There is laughter. There is thunderous applause and there is absolute quiet.”

“I have found wonderful relationships with banks, particularly at a time when bankers were getting a really bad reputation. The truth is, if it weren’t for Bank of America we couldn’t have done the Bridge Project – our transatlantic partnership uniting The Old Vic with the Brooklyn Academy of Music – over the last three seasons. I wouldn’t be doing Richard III either.”

“If it weren’t for Barclays and their CEO Bob Diamond and my relationship with him, if it weren’t for all of the banks that have stepped forward and supported the work that we’ve done, if it weren’t for American Airlines, for drinks companies... The list goes on of the kind of relationships we’ve nurtured in order to be able to stand on our own two feet and survive as a major theater.”

“At The Old Vic we have an ethos and trust is a huge part of it. We have such happy families when we are doing productions. This is an actors’ theater. The spirit backstage is seductive, infectious.”

“I spent 12 years focused on developing a film career and then came to London and signed up for 12 years committed to theater at The Old Vic.”

“I want to give people a great night out, and if they haven’t been to the theater before – particularly young kids – give them an experience they won’t forget. And maybe the next time someone invites them to a play, they won’t make a face.”
“A work of art does not know when it has crossed a border.”

“Right now we are going through enormous changes where people are fighting for their freedom. One of the ways in which we can do that – to fight back and stand up – is through our art and our literature and our music and our dance and our song.”

“I’ve gone to see work in other countries where it wasn’t in my language and still felt incredibly moved – touched by it – engaged by it – and felt that it has something to do with my life.”

“But The Old Vic, we don’t receive public subsidy and we function in the commercial world. But in many ways we behave like a subsidized house because of our vast educational and community program. That work is a huge part of who we are as a company... and a challenging hybrid to describe when we’re trying to fundraise.”

“I had to return The Old Vic to being a destination theater because it had been pretty much off the map for 30 years. Not because there hadn’t been a good production here and there, but it was essentially a booking house. There was no theater company, there was no artistic director, there was no education program, there was nothing but a place you could rent.”

“For kids under 25, 10 per cent of our seats every night are £12 – that’s just under $20 – paid for by Aditya Mittal of ArcelorMittal. Because of that, 75,000 young people have seen our productions. That’s been our policy from day one. Every performance of every show we do.”

“If you look at any revolution, why are the playwrights, the poets, the actors, the directors and the intellectuals rounded up, jailed, beaten, tortured and silenced? It’s because even dictators know that it is the artists who can speak best for a country’s future and dreams and hopes. We use art. We use it to survive.”

“We had to get an audience back and to reach out to a younger, wider, more diverse audience than maybe The Old Vic had ever experienced before. That audience came early, they came often, they supported the idea and they’re still coming. That’s absolutely incredibly satisfying.”

“Through our Old Vic New Voices program we watch young writers begin to emerge. It’s incredible to see what young people want to write about, the issues they want to deal with.”

“We use art. We use it to survive.”
“The tax laws in the US are favorable and incentivizing to people who might want to donate to the arts. If they changed the tax rules in the UK, there would be a flood of funding into arts and culture in this country.”

Q: For a role such as Richard III, which leaders or politicians do you turn to for inspiration?

“None of them are alive. Winston Churchill... Robert Kennedy...and Abraham Lincoln. He was a man who thirsted for poetry and drama. He understood that he needed to get outside of himself to do his work to best effect. Few people are aware of the extraordinary amount of theater he went to as President. Henry IV, Hamlet... It was his way of replenishing himself.”

“Even if not a lot happens in the course of a play, the emotions have to be epic.”

“I have sat down with several other artistic directors around town and we all agree that we should try to help other arts organizations [hit by funding cuts] as much as we can.”

Kevin Spacey is Artistic Director of The Old Vic theater company and directed its inaugural production Cloaca and most recently Complicit. At The Old Vic he has appeared in National Anthems, The Philadelphia Story, Richard II, A Moon for the Misbegotten (which transferred to Broadway), Speed the-Plow and most recently Inherit the Wind. Previous theater includes The Iceman Cometh (Evening Standard and Olivier Awards for Best Actor) at the Almeida, The Old Vic and on Broadway. His film company, Trigger Street, produced The Social Network about the creation of Facebook, Spacey’s film work as an actor includes The Usual Suspects and American Beauty (for both of which he received Academy Awards), LA Confidential, Glenngarry Glen Ross, and Casino Jack. He has two upcoming movies: Margin Call, about the collapse of the banking industry, and Horrible Bosses.

Anita Bennett is Chairman of Trinity Management Communications, part of the Brunswick Group. Trinity focuses on communications coaching and helps clients engage with their stakeholders internally and externally around the world.
GOOD MORNING
LADIES AND GENTLEMEN...

A conference need not be a dreaded entry in your diary. The right events can be a chance to engage with a wide range of interesting people, exchange ideas and raise your profile, but it takes some work

by Katie Foley and Kate Tellier, Brunswick, New York
It is easy to do the conference fly-by and not think twice. But truly memorable events are about big ideas. They can be an opportunity for meaningful engagement with people from very different backgrounds who can offer fundamental insights. They can be a chance for get-togethers off the official agenda, perhaps with people of influence at the highest levels. Good events are, at the very least, an opportunity to raise your profile via a burgeoning array of media.

It is worth remembering, too, that events these days are big business – almost every large media company has integrated conferences into their business model to create new revenue streams and stake out credibility on a particular topic or with a niche audience. Additionally, organizers such as think tanks, Wall Street firms and academic institutions have built up important thematic or industry-specific events. Conferences of all sizes can establish themselves in the calendar: think Fortune’s Brainstorm GREEN, The Economist’s Global Sport Summit, Morgan Stanley’s Technology Media & Telecom Conference or, the biggest of all, the World Economic Forum’s annual gathering of global leaders in Davos, Switzerland.

With the cost of engagement in leading global forums running into tens – if not hundreds – of thousands of dollars, and with multiple invitations vying for your attention, it is worth taking the trouble to make sure that investment delivers more than just your logo on the conference brochure.

Mixing it up

“In today’s global economy, it is essential for business leaders to step out of their comfort zone and engage with the citizens of the world. Failure to do so is certain to limit growth and opportunity at all levels.” – Dr Melvin T. Stith, Dean, Whitman School of Management, Syracuse University

A rich debate requires multiple perspectives, which is why top global forums convene leaders from a cross-section of disciplines. The result: access to perspectives and ideas impossible to find at industry- or business-only events.

Last year, the Aspen Ideas Festival drew celebrity business leaders such as Jeffrey Katzenberg, CEO of DreamWorks Animation, and Microsoft Chairman Bill Gates. They were joined by artists, doctors, politicians and athletes, who were not at the Colorado resort just for the ski slopes but for discussion and debate on issues of global importance, such as dealing with epidemics, migration and environmental degradation.

In an increasingly impersonal world, the right conferences are rare opportunities for live discussions with people whose ideas and opinions matter

Twitter co-founder Biz Stone was undeniably well-placed to headline the 2010 Milken Institute Global Conference’s talk on “innovation.” However, he was joined by others renowned in their field, including architect Frank Gehry, regenerative medicine pioneer Anthony Atala, and environmental justice advocate Majora Carter. The discussion ranged well beyond building design, stem cells, waterfront recovery projects and micro-blogging, to consider the big concept of how to translate ideas into action.

What’s the big idea?

“Managing a global business today requires a longer-term view of the world, understanding the shifting social and environmental context you operate in, and how your business needs to change as a result. We’re hearing leaders talk more and more about these global issues, rather than just those which will affect next quarter’s earnings.” – Helen Clarkson, Head of US Partnerships and Projects, Forum for the Future.

Premier events demand a level of discourse that leaves little room for marketing jargon. Engagement in public forums is often tied to the notion of some kind of “thought leadership.” Whatever it is called, that can be a very useful opportunity to define your company in terms of its greater purpose, rather than just the products and services it offers.

At this year’s annual Technology, Entertainment and Design conference – “TEDGlobal” – Bill Ford, Executive Chairman of Ford Motor Company, spoke about the “future of mobility,” describing how the surge in global population threatened to create global gridlock. Ford wasn’t arguing for a new type of automobile or a different kind of engine, he was explaining that with 800m cars on the road and average daily commutes in cities such as Beijing and São Paulo at five hours, we are facing an infrastructure crisis. For a company that was founded on the idea of giving people freedom to move around, the issue threatens the very existence of Ford’s business.

Ford went on to make the case for a new global network that ties all of our transportation options together. On Twitter, “#billford” was the number six trending topic that day and both National Public Radio and The Wall Street Journal pursued in-depth pieces on the topic in the days following.

Face time

“Particularly at a time when we are all overloaded and distracted by stimuli, the members of the Fortune Most Powerful Women community – women leaders in business and beyond who participate in our annual summit and other gatherings – say they want to come together to network live and in person, not just by e-mail, and talk with each other in a real and unfiltered way.” – Pattie Sellers, Editor at Large and Co-chair, Most Powerful Women Summit, Fortune.
In an increasingly impersonal world, the right conferences are rare opportunities for live discussions with people whose ideas and opinions matter. To only take advantage of formal timetabled meetings or a chance hallway encounter is to miss an opportunity. Most conferences compile and distribute a list of attendees ahead of the actual event, leaving ample time for you to identify and prioritize potential meetings, which should extend beyond existing relationships.

Indeed, with a bevy of important stakeholders in the same place at the same time, it can be an opportunity to take engagement to the next level by hosting a private side event. A small – or not-so-small – gathering often serves to highlight recent work or to raise awareness of strategy and goals.

On the sidelines of the World Economic Forum’s 2011 annual meeting in Davos, Switzerland, Liberty Global, an international broadband company, invited policymakers, industry peers and media representatives to breakfast to discuss issues that will shape the future of Europe’s digital agenda.

Side events can be an opportunity to associate a company and its expertise with highly influential people. On the fringes of the Aspen Institute meeting AGT International, a company that develops safety and security technology, led a closed discussion on how best to detect national security threats. Former Homeland Security Secretary Michael Chertoff – who was attending the Aspen conference – joined in the meeting, underlining AGT’s credibility.

**Breaking news**

“We’re looking for themes, commentary and analysis from a series of people. Over-the-horizon ideas can be very useful in setting out our agenda for the future.” – Andrew Edgecliffe-Johnson, Media Editor at the Financial Times.

Conferences that gain a reputation for breaking news or setting the agenda become a beacon for the media. Reporters, bloggers, tweeters – all are primed for breaking news at such events and companies now routinely tee up important news, on new initiatives, product launches, deals. Even without news, companies can become part of the coverage by offering relevant perspectives on the event’s themes.

**Truly memorable events are about big ideas, not day-to-day operations. They can be a chance for meaningful engagement with people who can offer fundamental insights.**

Ideas may yield immediate results or may gestate for later coverage.

The growing use of social media at conferences creates more opportunities for meaningful exposure. The World Economic Forum enlisted some 400 participants to tweet from this year’s annual meeting and launched a “social media corner” at the bustling Congress Center in Davos. All social media output – including tweets, blogs, YouTube clips and Flickr photos – was made conveniently available via the forum’s iPhone and Android smartphone applications.

At a mega-event, such as Davos, getting the attention of opinion-shapers can be daunting. At the latest Davos summit, Henry Blodget, the former Wall Street tech analyst who is now Editor-in-Chief of Business Insider, blogged a vivid account of the avalanche of invitations that typically come his way and his experience one night of picking his way through some of them.

Blodget wrote, “I’ve told you about all the stuff that goes on outside of the ‘official’ Davos events – the breakfasts, the lunches, the cocktails, the dinners, the nightcaps, the skiing, the snow-shoeing, the ice-driving – all put on by corporations and countries who would like to get to know you better.”

Interestingly, it is a night when he is bereft of invitations that Blodget makes his way through several hours of events that include: “cocktails to launch a hot new internet company,” time spent in the “Deloitte hall,” a specially constructed queuing area to funnel people to another event, then, after “three quick trips through the sushi line at Japan Night,” a chat with a software CEO about the future of Microsoft and Google, and on to the PwC party – which “was rocking” – before a quiet moment in PwC’s “Thought Café.”

Another Blodget post, picked up by The Huffington Post among others, illustrates the perils of the loose comment. Titled The Most Hilarious Moment at Davos So Far, Blodget recounted a cocktail conversation in which an executive passed comment on a prominent central banker. Luckily for the speaker, Blodget identified him only as “a mogul.”

**Turning to the last slide...**

Of course, not all conferences are in the Davos league. But with a combination of luck and judgment, you will have met interesting people from outside your normal world and perhaps shared some big ideas. And remember that a real conversation can be worth 1,000 e-mails.

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**Katie Foley** is an Associate in Brunswick’s New York office. She focuses on corporate positioning, financial communications and M&A.
LOOSE LIPS SINK SHIPS

When it comes to government, our obsession with transparency is misjudged, argues historian Andrew Roberts. Instead of openness and accountability, it can have the opposite effect.

Every CEO will be acutely aware of the constant tension between the need for confidentiality in protecting vital information from competitors, and the increasing transparency demanded by the media, the public and corporate communications firms. The power of social networking sites to brand a company secretive and even sinister is mirrored in the political world by WikiLeaks and other whistleblowing websites that thrust government secrets into the public sphere in the name of freedom of information. Do we still have secrets worth protecting in this new age of total transparency?

As a historian I have continually rubbed up against Britain’s “30-year rule,” by which the decision-making process behind every major government policy is kept rigidly secret until the first day of the year three decades after the decision was taken. It can be fabulously frustrating, of course, to be following a historical trail only to see it disappear behind the granite edifice of the 30-year rule. I have also had to face 50-, 75- and even 100-year rules, the last of which operates in the case of some files relating to Northern Ireland terrorism or Britain’s royal family. Absurdly enough, files are sometimes kept closed in the UK even though identical ones are available under the US Freedom of Information provisions in the United States.

Nonetheless, the excitement at the National Archives in Kew, southwest London, is palpable every January when dozens of journalists descend on the hitherto secret papers of three decades before. Next January, for example, we will be finding out the thought processes of Margaret Thatcher’s government in 1981, a tumultuous year in British and world politics.

In 2009, an official commission headed by Paul Dacre, Editor of the Daily Mail, one of Britain’s top-selling newspapers, recommended that the period for official secrecy should be reduced from 30 to 15 years. “The existing rule seemed to condone unnecessary secrecy rather than protecting necessary confidentiality,” Dacre reported. “This perception of secrecy was breeding public cynicism.” The whole issue has since been put on hold by a change of government, quite rightly so in my opinion.

For although it would make my job as an historian easier and more interesting, I believe that halving the period of official secrecy would fundamentally alter the way government works, for the worse. At present, civil servants advise ministers in memoranda that they know will not be made public until after they retire. Under a 15- or 20-year rule, however, they might be nearing the top of their departments when the National Archives start to reveal the advice they gave, which at the time they thought would remain secret. The potential for embarrassment, even humiliation, would be immense and could even destroy careers. It might mean that civil servants would simply not give their honest advice but only that which would look safely sanitized when it appeared in the newspapers 15 years later.

Even more worryingly, civil servants might only communicate controversial advice personally, in unminuted meetings or untaped phone calls. Historians would never be able to discover how the decision makers arrived at
the policies they did. Furthermore, there would be no record for government itself to learn even what decisions had been taken, never mind how they had been arrived at. What was nicknamed “sofa government” in Prime Minister Tony Blair’s years in power, because so many important decisions were taken privately on his sofa in Downing Street rather than around the Cabinet table, would become the norm.

Of course none of this matters if a civil servant’s advice is made public 30 days after giving it – as was the case with some of the US ambassadors humiliated in the WikiLeaks imbroglio – rather than 30 years later. I believe that the British laws on treachery, hacking, extradition, and unlawful disclosure of confidential information need to be tightened up, along the lines of the very tough and effective 1911 Official Secrets Act. Far from being more liberal, forgiving and tolerant in our digital information age, the demands of national security during the “war on terror” actually require us to be tougher.

The 1911 Act was passed during the period of pre-Great War spy fever, but has served its purpose on numerous occasions ever since. It only applies to those who voluntarily sign a copy of its provisions, but the catch-all phraseology of its first section, covering any activities “prejudicing the safety of the state” and passing information to a foreign government, gives it wide powers. Its second section was overtaken by a new Act passed in 1989, another usefully wide-ranging piece of legislation.

The whole idea of there being “official secrets” stemmed from an incident in 1878 when the secret clauses of an important treaty were taken down by a Foreign Office copying clerk, who sold them to The Globe newspaper, which published them in full only a matter of days before the treaty was due to be signed, causing enormous diplomatic embarrassment to the government of the day. It turned out that the clerk had broken no laws because he had not actually removed any documents from the building, and he owed no contractual duty of confidentiality to his employers. Nonetheless, despite this absurd anomaly, it took 11 years to close the loophole with the passing of the first Official Secrets Act in 1889. There were further Acts passed, including the draconian one of 1911, another in 1920 and then a third just as the Second World War broke out in 1939.

To sign the Act is a serious moment. I signed it in the 1980s when I was being interviewed for a job in MI6, Britain’s foreign intelligence service. A decade or so later I wrote a newspaper article about the process of positive vetting, the official checks on a person’s background and political persuasion before they are given a job, in order to protect national security. The former MI6 spy Richard Tomlinson – then in exile in France – insisted that I should be investigated under the Act. A few days later, two Special Branch detectives arrived at my door and then grilled me for an hour about my statements, writings and actions, albeit in a very civil manner. They decided there were insufficient grounds to prosecute, but there are provisions for sentences of up to 14 years in prison for those found guilty of breaking the secrecy laws.

Britons’ ancient liberties are protected by the fact that occasionally a jury will acquit, as happened in 1985 in the case of the UK Ministry of Defence whistleblower Clive Ponting, who was charged with leaking documents about the sinking of the Argentine cruiser General Belgrano three years earlier. Of course for civil libertarians, the very concept of the state having secrets to which the public have no right of access is anathema, but in wartime – which the struggle against terrorism effectively is – they are essential. Equally, although the concept of allegiance to the Crown, and of treachery to it, seem to hark back to medieval times, in fact they are ideas whose time has come again, especially with British citizens being captured in Afghanistan and elsewhere in the act of bearing arms against Crown forces.

Whether the general rule applies to business in general and CEOs in particular is debatable, but when national security is at stake, we should always err on the side of confidentiality over transparency. 😊

Dr Andrew Roberts is a historian, journalist and broadcaster. His latest book, The Storm of War: A New History of the Second World War won the British Army Military Book of the Year Award for 2010. He is a Fellow of the Royal Society of Literature and lives in New York with his wife, Susan Gilchrist, Brunswick’s US Managing Partner.
SECRETS AND LIES

US freedom of information law was born of a national scandal. The debate about its scope continues

BY ANTHONY COLEY, BRUNSWICK, WASHINGTON, DC

There are a few bedrock principles on which the American political system is built. Freedom is one of them. And this sacred, unalienable right is secured several ways – freedom of assembly, freedom of religion, freedom of petition, freedom of the press. After the Watergate scandal and cover-up, a fierce debate on freedom of information began. It continues nearly a generation later.

At the time, few had reason to believe President Richard Nixon was aware of, much less involved with, the break-in at Democratic National Committee headquarters. Private audio recordings, lawsuits, and reliable newspaper leaks that implicated Nixon soon changed that. On August 8 1974, he became the first and only US president to resign the office.

Watergate occurred during a special moment in American political history. The 1960s saw the assassination of a US president and, after much unrest in the American South, civil rights victories. Moreover, a seemingly endless war in the Far East preoccupied America’s collective consciousness.

But Watergate stands apart. It so seared America’s psyche that even now, a generation later, political scandals of even minor importance routinely carry the suffix “gate.” Watergate became the impetus for improvements in government openness and transparency. Previous efforts, such as the 1966 Freedom of Information Act (FOIA), fell short. It took Nixon’s resignation and a veto override by Congress to secure amendments that gave freedom of information rights real teeth – and that version exists, only slightly amended, today.

Watergate-inspired amendments to the FOIA made in 1974 were designed to make the US government more transparent and accountable. Federal agencies are now required to release requested government records, with certain exceptions. To date, millions of documents have been made available to the public. Requests are often submitted via the internet, and are frequently completed in less than 30 days.

The Presidential Records Act (PRA) in 1978 was also born of the Watergate scandal. The public can now access millions of White House records, including internal memos and handwritten notes, as well as external communications from the public and others, including CEOs and lobbyists. These records are available as soon as five years after a president and vice-president leave office. (It is worth noting that former presidents may request as many as six restrictions that could delay release of certain White House records by up to 12 years.)

To be sure, the legislation is not perfect. Much like the US Constitution, it is dynamic and changes with time. Consider this: the PRA was passed more than a decade before e-mail became commonplace and a quarter century before the emergence of Facebook and Twitter. Still, legal scholars agree that electronic communication is covered under the law’s broad definition of presidential records. As such, all e-mails sent to and received by the White House are automatically saved.

Critics complain that open government laws are not nearly as comprehensive as proponents suggest. Congress, for example, exempted itself when it wrote the law. And presidents of both political parties routinely cite executive privilege to avoid releasing documents. In addition, certain provisions exist to prohibit the disclosure of trade secrets, along with financial and commercial information.

On the other hand, there have been many instances where individuals and organizations have claimed to have been the victims of abuse of freedom of information legislation. Indeed, one of the most important debates on the subject centers on the recent Dodd-Frank Wall Street reform law and the Securities and Exchange Commission – Wall Street’s regulator. Several American companies and hedge funds argue they should be exempt from certain freedom of information rules in order to protect personal or proprietary information.

Still, compared to the United Kingdom, the United States gives access to government documents much sooner. The FOIA and the PRA are the primary tools that have made this possible. And while neither provision goes as far as some would like, both have ushered in a new era of transparency, while helping secure that most basic of American ideals – freedom.

Anthony Coley is a Director in Brunswick’s Washington, DC office. He is a former communications director for US Senator Ted Kennedy and New Jersey Governor Jon Corzine and advises on critical issues involving public affairs, crisis communications and public advocacy.

“When information which properly belongs to the public is systematically withheld by those in power, the people soon become ignorant of their own affairs, distrustful of those who manage them, and – eventually – incapable of determining their own destinies.”

President Richard Nixon in 1972, two years before he resigned.

Photograph: Getty Images

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ENGAGING WITH CYCLONES

When giving interviews to the press, business leaders of the 21st century should read a Mark Twain essay from the 19th, says David Yelland

It happens all the time, all over the business world. You work your entire career to reach the very top and then, sometimes quite suddenly, you get there. You have arrived.

It’s only then that you start to make mistakes. Picture the scene: You are the new man or woman, the CEO or country chief. You are at the very apex of your career, the number one, the person the entire organization looks to for leadership. All eyes turn to you. What you say suddenly matters. It matters to investors, employees, regulators, governments, in fact nearly everyone you know or are likely to know.

Being the leader of an organization magnifies everything you do. It makes your successes appear bigger than they are, but it makes your errors bigger too. You are like the rabbit in a shadow puppet show. Suddenly, your every movement is magnified on a canvas so large – global even – that it can be scary to even think about it. And the biggest magnifier of all is media.

It is about this time that you are asked to do an interview. Somebody walks into your office and suggests it. Or you think it might be a good idea yourself. After all, now you are at the top, shouldn’t you do a press interview or go on the television? Yes, yes, yes, you may think. This is my time to speak, time to make my mark.

You may be right. You may be that rare leader who has arrived at the top with a plan and an ability to say exactly the right thing. Such people do exist. But many more make the cardinal error of forgetting that in order to do that first interview – or indeed any interview – you first have to have something to say. The timing needs to be right. Your head needs to be right.

I know about this not only because of my role as a partner at Brunswick, but mainly because I made errors myself, a few weeks after taking over as editor of Rupert Murdoch’s London newspaper The Sun.

Fresh from seven years in the US as Deputy Editor of the New York Post, I thought I knew everything that needed to be known about media. I was, after all, in the business and had interviewed hundreds of people myself. So, I gave an interview far too early. I was unprepared. It is a harsh lesson I wouldn’t wish on any man or woman new to a high profile job.

If you do an interview with no planned narrative and for no real reason then it is like instructing a ghostwriter you have never met to write your autobiography.

Which is why when I first read Mark Twain’s essay on the art of the press interview, I jumped up and down with joy and delight. Twain’s essay is the best polemic on the press interview I have ever read. This essay lay undiscovered for 40 years in the archive of the Mark Twain Project at the University of California, Berkeley. Scholars believe it was written in about 1889 or 1890, during a period when American newspapers were changing and becoming more sensationalist, led by titles such as Joseph Pulitzer’s New York World.

Although best known for his eponymous prize for excellence in journalism, Pulitzer was also responsible for creating a new kind of newspaper, elements of which live on in titles like my former employer, The Sun. This trend was dubbed “yellow journalism” by some, and not everyone approved of the World’s populist approach. Twain, at times, was also a critic.

This essay, then, should possibly be read in the context of Twain’s particularly difficult relationship with American newspaper editors of the time. Although anybody who has ever sat down and given a newspaper interview and been less than impressed with the article that was subsequently published may well sympathize with the great man’s viewpoint that “the interview was not a happy invention.”

Twain suspects that most journalists do not set out to misrepresent or destroy their interviewee, rather “I think their attitude is more that of the cyclone, which comes with the gracious purpose of cooling off a sweltering village, and is not aware, afterward, that it has done that village anything but a favor.”

He adds that the interview “is perhaps the poorest of all ways of getting at what is in a man. In the first place, the interviewer is the reverse of an inspiration, because you are afraid of him.”

Interviewers are courteous and gentle-mannered, even when they come to destroy

Mark Twain
Nevertheless, Twain would not recommend never doing interviews. They are as essential now as they were for Twain, because leaders of all kinds need to reach wider audiences.

Instead, Twain is saying be very careful. Understand that the encounter is a false one, a power imbalance between the hunter and the hunted, a piece of human calculus you need to think about. And be prepared for your interviewer to leap from one subject to another, confusing your flow. “His interruptions, his fashion of diverting you from topic to topic,” Twain noted, “have in a certain way a very serious effect: they leave you but partly uttered on each topic. Generally, you have got out just enough of your statement to damage you; you never get to the place where you meant to explain and justify your position.”

This habit, Twain reckons, is bad for the interviewer too. It means, Twain says, “He doesn’t know when you are delivering metal from when you are shoveling out slag, he can’t tell dirt from ducats; it’s all one to him, he puts in everything you say; then he sees, himself, that it is but green stuff and wasn’t worth saying, so he tries to mend it by putting in something of his own which he thinks is ripe, but in fact is rotten. True, he means well, but so does the cyclone.”

Twain was a wise man and a very great writer. And what he says about the interview is as true now as it was in his time. Perhaps every new CEO should read this essay and sleep on it a few nights before agreeing to that first “big interview.” It will still happen of course; no business leader can steer clear of the media forever, nor should they. But the key thing to remember is this: The idea of there being “friendly” and “hostile” journalists is not as simple as it seems. Even a friendly reporter can act as Twain’s cyclone. And sometimes a hostile one asks the best questions.

All you can do, as the subject of any interview, is prepare and do your best. Be honest. Be yourself. Be relaxed. And maybe send your interviewer the Twain essay by e-mail after the interview as a goodwill gesture. Just to say you understand.

David Yelland is a former Deputy Editor of the New York Post and ex-Editor of Rupert Murdoch’s tabloid The Sun, the biggest selling newspaper in the UK. He is now a Partner in Brunswick’s London office.
The eyes of Florencio Avalos are caught on a tiny video camera... and a mining accident in a far-off country becomes a human drama that transfixes the world. Each year, several thousand miners die underground. The 33 miners trapped in a collapse at the San José copper and gold mine in northern Chile last August seemed destined to be another statistic in a dangerous industry – until rescuers drilled down and, 17 days after the accident, heard tapping. Shortly after, they brought the first pictures to the surface, proving that all had survived. In the past year the world has been rocked by revolutions and disasters. Our ability to relate to each was enhanced by human images: a lone woman amid a submerged Japanese landscape, or people power in Tahrir Square. The world watched Chile as engineers took 69 suspense-filled days to drill a shaft wide enough to bring the miners to the surface. On October 12, with television stations from around the world going live to the mine, they came up one by one. First was Avalos, 31, the man in the picture, chosen to lead because of his superior fitness – in case anything went wrong. Proof once again that stories with a human face are always more compelling.

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