ARTHUR W. PAGE SOCIETY
FOUNDED 1983

JOURNAL

Page One Teleconferences

2005

THE PAGE PHILOSOPHY

Arthur W. Page viewed public relations as the art of developing, understanding and communicating character – both corporate and individual.

This vision was a natural outgrowth of his belief in humanism and freedom as America's guiding characteristics and as preconditions for capitalism.

The successful corporation, Page believed, must shape its character in concert with the nations. It must operate in the public interest, manage for the long run and make customer satisfaction its primary goal. He described the dynamic this way:

"Real success, both for big business and the public, lies in large enterprise conducting itself in the public interest and in such a way that the public will give it sufficient freedom to serve effectively."

THE PAGE PRINCIPLES

Arthur W. Page practiced seven principles of public relations management as a means of implementing his philosophy.

- **Tell the truth.** Let the public know what's happening and provide an accurate picture of the company's character, ideals and practices.

- **Prove it with action.** Public perception of an organization is determined 90 percent by what it does and ten percent by what it says.

- **Listen to the customer.** To serve the company well, understand what the public wants and needs. Keep top decision makers and other employees informed about public reaction to company products, policies and practices.

- **Manage for tomorrow.** Anticipate public reaction and eliminate practices that create difficulties. Generate goodwill.

- **Conduct public relations as if the whole company depends on it.** Corporate relations is a management function. No corporate strategy should be implemented without considering its impact on the public. The public relations professional is a policy maker capable of handling a wide range of corporate communications activities.

- **Realize a company's true character is expressed by its people.** The strongest opinions – good or bad – about a company are shaped by the words and deeds of its employees. As a result, every employee – active or retired – is involved with public relations. It is the responsibility of corporate communications to support each employee's capability and desire to be an honest, knowledgeable ambassador to customers, friends, shareowners and public officials.

- **Remain calm, patient and good-humored.** Lay the groundwork for public relations miracles with consistent, calm and reasoned attention to information and contacts. When a crisis arises, remember that cool heads communicate best.

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Page One Teleconferences: A Continuous Learning Opportunity

The Arthur W. Page Society's PAGE ONE Teleconference series was created to supplement the extended dialogue that takes place at the Society's Annual Conference, Spring Seminar and assorted networking events throughout the year. These audio and Web cast conferences are intended to provide fast, easy and timely discussion forums on subjects of current interest. They feature a moderator and guest experts who provide background, insights, and advice about how corporate communications can help deal with changed circumstances in what are usually highly charged environments. The audience enters into a two-way dialogue with the panel and moderator.

The transcripts of the PAGE ONE Teleconferences that appear in this Journal reflect the events and issues that have taken center-stage in public relations, corporate communications – and with people all over the world, in the case of Hurricane Katrina – in 2005.

The Society hopes you find the information provided in these transcripts useful, and please be on the lookout for more informative PAGE ONE Teleconferences this year.

PR Industry In Crisis

MILBANK SYMPOSIUM TUCK SCHOOL OF BUSINESS APRIL 11, 2005

PAGE ONE Panel

Ron Alsop
Wall Street Journal

Julia Hood
PRWeek

Ray Kotcher
Ketchum

Tom Martin
ITT Industries

Dick Starmann

Paul Argenti
Tuck School of Business at Dartmouth, Moderator

DEAN PAUL DANOS
Welcome everyone. I'd like to take a few minutes to welcome our students from the first year class, students from Professor Argenti's corporate communications elective, and guests for the 9th Milbank Symposium. I know that Tony Milbank is here today. And we all at the school, Tony, want to thank you for giving us the support we need to put on this type of event. In addition, I know that we're being broadcast now through to the Arthur W. Page Society members and I want to thank Tom Martin who is one of our panelists, and is also president of that prestigious organization and we want to thank him for his help in having this broadcast today. And finally I'd like to thank Annette Lyman who worked on so many of the arrangements. Annette, thank you very much.

Professor Argenti will tell you more about the specifics of the session and the panelists in a moment, but I just wanted to say something about how important the issues that are going to be addressed today are to all of us, corporations, governments and even business schools themselves, and how transparent one can be in dealing with news organizations and the media. As a business school that trains top business leaders, we have to help in training how to be effective communicators and how to get others to understand our organizations. There is no higher leadership skill including all that together, and I think this symposium is going to help all of you get closer to that goal.

Finally, I want to introduce our moderator for today, Professor Paul Argenti. All of you and all of us of course know him, but we're going to introduce him as part of this team. He teaches three first year courses at Tuck; he teaches of course his elective in corporate communications. He's written more on this subject than anyone else that I know. He travels the world and is called from all over the world to comment on issues that are very much like the issues we'll be talking about today. His publication record is fabulous and his work in all elements of communication is invaluable. Again, for the group of panelists to be involved here, I can't think of a better moderator. Of course Paul has moderated all eight previous Milbank lectures. So without further ado I'd like to thank all of you for being here. Have a great session. I'd like to introduce Paul Argenti as your moderator.

PAUL ARGENTI
Thanks for the introduction, Paul, and I also want to thank Tony Milbank for his generous support of these sessions over the years and also the Page Society for extending the reach of our session today to so many members outside of this room.

I'm going to start off by defining some of the issues that we're going to be talking about, very briefly. Then I'm going to introduce the panelists and I'll dive into this discussion as sort of a case discussion, and engage each of the panelists rather than asking each of them to talk for five minutes, which turns into ten, which turns into no discussion at all. And then I will cold call a couple of students from the class, which is sort of a tradition in my class as you know. I'm sure they're all ready for that having read the articles and so forth. And then I'll open it up to the rest of the audience for questions.

On February 13th, on the front page of *The New York Times* business section, the public relations industry in general and Ketchum Public Relations in particular was the subject of a scathing attack by Tim O'Brien in an article entitled, "Spinning Frenzy, PR's Bad Press," which probably tells you everything you need to know about what that article was about. And as Paul mentioned, I'm often quoted and I'm sorry to say I was quoted in that piece as well in not the best light possible.

> "Needless to say, the industry is under scrutiny in a way it hasn't been in almost 100 years."
> *– Argenti*

The article focused on a gentleman by the name of Armstrong Williams who runs what was defined in the article as a PR agency (and that may become important later) and his ties to the Department of Education and Ketchum Public Relations. Now in looking at this situation the implications in the article were that Mr. Williams was hired by Ketchum, paid close to a quarter of a million dollars to support the president's No Child Left Behind Act and in doing so, as he spoke about this fairly regularly on television and media throughout the world, left out the part about being paid in his endorsements for the ad. That was sort of the way the article presented itself. Isn't this a shame that this guy was paid for doing this and never told anyone about it, even though anyone who knows anything about Armstrong Williams would not be surprised to see him touting the benefits of the No Child Left Behind Act. I can't remember exactly what the name of his program is, but it's something like *The Right Side,* I think.

This wasn't the first attack in the media about this incident. In fact, *USA Today* broke the story. It was also covered in the trade press fairly extensively including PRWeek and many other publications. But, *it was the first time that The New York Times* had a 3,000 word article devoted to this.

The article attacked Ketchum in particular and implied that the firm made millions off of the government doing shady deals just like this one every day. I think that's pretty much what the article implied. Now, the discussion continued in several more articles, but the two that I think were probably the most difficult for those of us who work in the profession were one by Stuart Elliott, who is sort of the dean of reporting in our profession both in PR and advertising, as well as Frank Rich who many of you may remember as an Op-ed columnist for *The New York Times* who somehow got demoted to writing for Arts and Leisure, but continued to write Op-ed pieces for the Arts and Leisure page as he did on this Sunday very recently about this incident. Last Sunday I noticed that he finally went back to his job in the Op-ed section, no doubt as a result of the scathing attack about this very incident.

And then about a month later, an article appeared on March 13th that focused on fake news. This was now not on the front page of the business section but on the front page of *The New York Times* itself, focusing on the use of video news releases again by organizations like the ones represented here today – by public relations firms – in the construction of what is considered by the *Times* to be fake news. And for those of you who are reading these articles as religiously as I am, yesterday the *Times* published a fairly scathing attack, this time fortunately for Ray, not on Ketchum, but on Porter Novelli about their work for the government on the food pyramid. I hadn't known that Porter Novelli was involved in the development of the first food pyramid or that, as the article implied, the pyramid is a construction of the food industry because of the unfortunate connection with this public relations firm. I'm saying all of this with tongue firmly in cheek because I think you can read between the lines about my own opinion about this.

Needless to say, the industry is under scrutiny in a way it hasn't been in almost 100 years. When the industry first developed, as people who have followed this for many, many years know, it was under attack from several people for antics that were even crazier than the ones we're talking about today. These weren't black and white specifically but they were things that people would question such as sending women marching down 5th Avenue with cigarettes as sort of a freedom parade when they were actually working for a tobacco company. Those kinds of attacks came against the industry at that time and fell by the wayside until very recently. But the public relations industry hasn't really had to justify its existence in the way that it has in the last couple of months.

Today we want to take a look at this issue from some of the most important people in the field. I have to say these are the very best people we could've assembled for this discussion and I'm amazed that we got all of them here on one day. I know many of them are busy with all kinds of things, and I want to thank all of them very much for taking the time to come up here to Hanover, New Hampshire to talk about this.

I'll start with Ron Alsop. In addition to writing articles for *The Wall Street Journal* about business education, corporate reputation, and marketing, as well as the newspaper's MBA Track column, Ron is the editor of the annual *Wall Street Journal* guide to the top business schools which is where you may know him and the book, *The 18 Immutable Laws of Corporate Reputation,* which he published just a couple of years ago. He served as *The Wall Street Journal's* marketing columnist and editor of the *Journal's Marketplace* page, so he knows this industry pretty much inside and out and we are very grateful for all of Ron's work over the years. I've been on many panels for him when he's moderated, so I thought it was time he do the same for me and he agreed.

Sitting next to him is Julia Hood. Julia Hood began her career in publishing and subsequently has held positions in corporate communications for companies like Mobil and BAT Industries. She's been at *PRWeek* Magazine, the leading publication for public relations and communications professionals, for four years where she serves as Editor-in-Chief. Julia's one of the most influential people in this field and we're delighted that she can be with us today.

Down at the far end is the gentleman who had to read not only my comments but everyone else's for the last several weeks in various publications. Ray Kotcher joined the global public relations firm of Ketchum in 1983 as a vice president; he became president in 1992; and CEO in the year 2000. Under his leadership, the agency developed and introduced the Ketchum Planning Process, a global approach to account planning, execution, and client service, and, more recently, the Ketchum ROI Lab, which is a suite of cutting-edge measurement tools that quantify the value of public relations.

Seated immediately to my left is Tom Martin. Before Tom Martin joined ITT in 1996, he was vice president of corporate communications for FedEx. So he's had a long career in corporate communications. He was responsible at FedEx for public relations and internal communications and for the launch in '94 of the FedEx brand. At ITT, which is a diversified global engineering and manufacturing firm, he oversees worldwide brand and reputation management, public relations, employee public relations, government affairs, corporate advertising, and community relations. As Paul mentioned, he is also the president of the Page Society, which is a group of senior most corporate communications executives of the largest companies in the country. He just finished a meeting over the last couple of days and agreed to come up here. As a trustee of that organization I must say that I am delighted with Tom's calm leadership during this time of difficulty for the entire field. He's done a great job and I want to thank him for that.

Next to him is someone that has visited Tuck many, many times, Dick Starmann. He has been practicing crisis management all over the world, U.S., Europe, and Asia for the past 20 years. If you are ever in trouble with a crisis, this is by far the best person to call. He is the best crisis communication specialist on earth. He was an officer at McDonald's Corporation for 19 of his 27 years at the company. He started the worldwide communications department, he worked in marketing, and held every imaginable job related to communications before he retired in 1998. He was the head of the global crisis management response and preparedness team and has come up here for the last ten years to work with us in the corporate communications class when we do the McDonald's case. He's kind of a fixture here and we're delighted to have him here today. Both he and Julia will appear in the class tomorrow. Thank you both for all of your generous time.

> "Journalists right now, the whole journalism and media community, is struggling for a variety of reasons with the definition of who they are, and what they are, and what their rights and responsibilities are."
> *– Kotcher*

Without any further ado, let me start by asking the first question, as you're probably not surprised, of Ray Kotcher of Ketchum. Ray, tell us briefly your side of the story.

RAY KOTCHER

Thank you, Paul. First of all, I do thank you for the opportunity to be here. We are very eager to tell our story as often as people will listen to our story. It's taken us some time to get to the bottom of what happened and now that we do have the facts and we know what did transpire, we're eager to let people know what we found when we did our examination and our investigations.

Let me start by saying that this has been an extraordinary few months for us at Ketchum. The agency is over 80 years old. We've always adhered to the highest ethical standards and I think we were probably caught by surprise as much as anybody and felt very badly that something like this could happen in the business, but also happen to Ketchum in particular. For the situation we find ourselves in as an industry, we apologize, but that being said, you know this was a story in the making for some time, if you will. Journalists right now, the whole journalism and media community, is struggling for a variety of reasons with the definition of who they are, and what they are, and what their rights and what their responsibilities are. If you take a story like the Armstrong Williams Department of Education story, put it down in Washington, which has probably the most partisan environment in history ever, and a very fractious environment, and you kind of mix those two together, and you come out with stories like Armstrong Williams.

I'll headline by telling you that what happened at Ketchum was unintentional; it was never the intent of anybody at Ketchum to engage in this kind of behavior and I want to share with you what we did learn as we kind of looked at all of the documents and entries of all the people who were involved in the situation.

> "…only a third of the public believes most communications from companies is sincere to start with… I just think it's really unfortunate because I think there are a lot of great companies out there that are suffering because of this cynicism."
>
> *– Alsop*

In 2003, Ketchum signed with the Department of Education a master contract, a prime contract, if you will, to handle all the communications around No Child Left Behind. This is a common practice between government and public relations. In fact most major legislation, after it's signed into law by the President, has funding to get out there and talk to the public about the new law and what its benefits are and how it affects people. If you think about the news on an every day basis when you hear stories from Centers for Disease Control, stories from the Agriculture Department as Paul pointed out, or you hear stories from Homeland Security, those are government funded stories sometimes in association with a piece of legislation that's been signed into law by the President, sometimes not, sometimes it's public information. But there is a lot of public information coming out of the government and for the most part, it does serve the public good. It is very important work that informs and educates people about very important issues and problems in society, impending problems in society.

So we signed a prime contract with the Department of Education to represent the Department of Education for all the communication around the No Child Left Behind Act. As part of that, we subsequently were awarded a subcontract that was targeted towards the African American community, to talk about the No Child Left Behind Act, what its impact is on African American communities, how African American communities can apply for loans, and aid, and how those communities can better adhere to the regulations, to the laws, excuse me, of No Child Left Behind. That's what that subcontract was all about and that subcontract was with the Graham Williams Group, which is as Paul said, an advertising and public relations agency that's owned by Armstrong Williams and a fellow that used to be his partner, but is no longer his partner. And that contract was for advertising, it was to produce ads that explained No Child Left Behind and it was to buy media time on African American media outlets. That's what the contract was for, that's what all of the invoices were for, and that's what all of the billing was for. And that was the $240,000 that is being widely reported that Armstrong Williams got paid.

Now, as part of the contract, there was a line in the contract, and this is where the controversy really arises, that says something to the effect…that Mr. Williams will also make efforts to talk about No Child Left Behind on his syndicated television show, *The Right Side.* He had a syndicated television show as a commentator, which again was targeted at African American communities. He obviously had a conservative point of view and the contract stipulated that he would talk about that on his show. He did and this is where we should have been more vigilant as an agency. We should have questioned that contract more carefully, we should have urged him to disclose and he should have disclosed. There's no doubt about any of that. For all the work Ketchum did in administering the Graham Williams subcontract for No Child Left Behind, we received $2,503. I want to get this right, $2,503.25. That was the value to Ketchum of the Graham Williams contract for advertising. And it was really for administration and management of that contract.

Now, where the story gets a little bit confusing is that Armstrong Williams was a very vociferous supporter of the No Child Left Behind Act while it was still in legislation and after it got signed by the President – and he continued to go out and talk on all kinds of media outlets, CNN, FOX, ABC, NPR, about No Child Left Behind. When he appeared on those outlets, we did not have anything whatsoever to do with his appearances on those outlets. We did not contact those outlets on his behalf, we didn't have any correspondence, we didn't make any phone calls, we didn't talk to producers, we didn't prepare him for the interviews – he did all of this on his own. All the interviews that he did about No Child Left Behind he did because he believed deeply in No Child Left Behind and what it was doing for the United States and for the education system in the United States. As I said, if we had been engaged with that process, in booking him, helping him prepare for the appearances, and working with producers at CNN and FOX and ABC and NPR, we would have disclosed all of our media materials. When we do that kind of work we always clearly disclose… always have and always will...we would have made every effort to make sure that he disclosed when he appeared on those outlets as well. So all that is what we found out in our investigation and our examination of the situation, those are the facts that we were able to come to determine.

ARGENTI

OK. Ron, from a reputation perspective, how bad is this for the profession and communicators in general, from your perspective?

RON ALSOP

Well I think it comes at a really bad time in the world of corporate America generally because as we've seen with these scandals in the past three years, the public is so cynical about corporate America right now—last fall when *The Wall Street Journal*/Harris Interactive [published] its annual reputation ranking, we found that only a third of the public believes most communications from companies is sincere to start with, so then you add this kind of event on top of that.

I just think it's really unfortunate because I think there are a lot of great companies out there that are suffering because of this cynicism and cases like this just adds to it. I'd be curious to ask Ray himself at some point how your corporate clients reacted to this because I would think they would have some nervousness about being connected to all of this, too, given this climate we're in. But beyond that I also want to say as a member of the media that the media certainly has some responsibility in a case like this. I don't know all the particulars of Armstrong Williams' relationship with CNN and some of the other outlets you mentioned, but it seems that they should disclose their responsibility too, if they have any inkling that he was doing ads and other promotion for this law.

The broader issue you mention of the government putting in all these video news releases there are tons of local TV stations that run these – not just from the government but from companies, and act like it's their local reporters reporting when it's actually a paid PR person who's the reporter. In fact, I wrote a story back in 1987 – I can't believe it's been that long – about how the liquor industry, because they can't advertise on television, were producing video news releases and getting them on TV in local news channels that are short of reporters and good news. To the public that's watching them, it looks like this is a legitimately reported story when it's actually a PR campaign by a liquor company.

So, I don't think it's a totally new issue, but I think it's becoming a bigger issue, and as we talked earlier about the blogs and all other new media outlets creating the question what is a true journalist these days, I think the lines are getting so blurry that all we can ask for is greater transparency than ever to try to *not only* prevent confusion to the public, but also try to deal with this cynicism that I think is becoming a real worrisome problem for corporate America.

ARGENTI

I want to ask Dick in a moment if this is starting to sound like a crisis or not, but before I do, Ray – please answer Ron's question about how your clients are reacting to this event.

KOTCHER

That's a good question. First of all, our clients have been really terrific through this and very supportive of Ketchum. This is not just a question for Ketchum clients, it really is a question both for public relations work and public relations process both in the government sector as well as in the private or commercial sector. I think that this has really initiated or brought on us a new moment in journalism and public relations where the public relations business, the journalism and media business, are going to be asking a lot of questions of themselves and be asked questions by many people in terms of the standards, in terms of the procedures, in terms of the ethics, and in terms of the laws that both protect journalists, but also regulate journalism as well.

So I guess the answer to the question is that I really do believe that the corporate communications departments, and the public relations consultants and agencies who truly understand these new waters that we're sailing into at this very moment, are all going to change very rapidly. These are oil and water – these are going to change very rapidly over the next three to five years. Understand that we're dealing with FCC issues, FTC issues; we're dealing with judicial precedent; we're dealing with laws that have been legislated into law; and we're dealing with new government organizations, and new groups looking at the issue every day. It's going to really inform and drive I think a very different environment for journalism and public relations, particularly in the next three to five years. Those organizations that learn how to continue to communicate effectively and powerfully, but do it in a way that is sensitive to this new world, these new waters that we're sailing into, will be the successful communications departments and successful agencies.

ARGENTI
Dick, how do you think they're handling it?

DICK STARMANN
Yeah of course it's a crisis. I think it's a crisis immediately for the industry to a degree. I think it's also going to be what I call a "creeping crisis," an ongoing crisis. Often times in situations like this it's not the act or what happens, it's the cover up in this case or the omission that makes it such a big thing.

Frankly, I think if Armstrong Williams would've said certain things at certain points in time, I think all of this would've been avoided and as Julia and I were just talking about earlier, we would have been either not here today or talking about a different subject, because I don't think it would've been a big thing. Because VNR's and third party experts and associations and alliances have been a part of corporate America for 35 years that I'm aware of and it's nothing new or different, but now suddenly there's going to be scrutiny like there's never been before. I really think the crisis is yet to come, because there have to be some people out there who are doing what Armstrong was doing or even more so or more involved that have yet to emerge. They're the ones that are sweating bullets.

> "There's still a huge misunderstanding in the mainstream media about what the PR industry is about – what it does, what kind of business it is, how it's run, how it's managed, the oversight, who are the critical players in PR – and I think that's something that the PR industry has long avoided having to confront and account for itself as a real industry."
> *– Hood*

ARGENTI
They didn't break any law. I mean they didn't have to say that he was working for Ketchum or for the Department of Education. Right? Are there any laws? Did he have to say anything?

KOTCHER
You know, it's hard for me to comment on that because I haven't been on the inside of Armstrong Williams' team, but what I can tell you is that at Ketchum we don't feel that we are touching any legalities here. Certainly there are ethical issues, there are perceptual issues, but from everything that we can see and from all that our attorneys have told us about all the government bodies that have touched this issue in some way, we don't see a legal issue here. Again, ethics, transparency, standard of procedures – a different story.

ARGENTI
Ron, you want to ask a question?

ALSOP
One question – it's on the reputation issue – why you didn't comment right away, at least say "we're sorry this happened."

KOTCHER
The reason I'm smiling, Ron, is because we did. We commented very immediately, actually. There were two primary reasons that we were not as aggressive or as assertive in our mission communications as we might have been.

First of all, as I said, this firm has an 80-year-old history. This is a place where we were the last people who would expect something like this to happen to our firm. We were kind of taken aback. It did take us some time to determine what the facts were and frankly, I was surprised by the level of the dialogue and the volume of the dialogue in our industry. People kind of postulating, hypothesizing about what happened when I didn't even know what happened. So, if I didn't know what happened, how could they know what happened and have opinions on it? Before we got out there, I wanted to make sure I knew what I was talking about, because there were plenty of people contributing to the dialogue with no idea what had happened.

Number two, we had an agreement at the time with the Department of Education that they would handle the national media and we would talk with the trade media. And we did talk with them within the first couple of days after the story broke in *USA Today.* It broke on a Friday in *USA Today* and by the following week we had an Op-ed that Julia agreed to run, but we also did one-on-one interviews with all the public relations trades as well. So we did speak to the media and it's on the record.

ARGENTI

Julia, you covered the story early on and how did readers react to this? How big a deal is this from the inside the industry perspective?

JULIA HOOD

It is a big deal and it's kind of a perfect storm that's come into the PR world. As you alluded to, there have been several issues that have come up in the past year, actually, it was almost exactly a year ago now that the VNR Medicare issue came out. A VNR promoting the Medicare drug benefits had been played on multiple outlets with a reporter who was actually a PR person saying "Karen Ryan reporting" and this was revealed. And this caused a fire storm at that time.

There's also been an issue in Los Angeles over government contracts [Omnicom] of Fleishman-Hillard that have been accused of overbilling. Slightly different issue, but it had basically the same chilling effect, because what has happened is the suspicion of PR contracts around government issues and government business has gone up exponentially.

But I often think about what's really happening to the PR industry itself. A couple of months ago, I had Timothy O'Brien on the phone asking me questions about the industry. I was not quoted in that piece, although I did talk to him on background. I also had another reporter from *The New York Times* who was talking to me about a very different piece and that was a profile of a guy named Ronn Torossian who has a burgeoning little PR firm called 5W Public Relations, and he is a huge self promoter. He's constantly sending press releases out. He sent out press releases attacking Lizzie Grubman for her PoweRGirls TV show and I have this reporter calling me and saying how big is this guy, I'm writing a profile of Ronn Torossian and I understand he's got the fastest growing PR firm in America and I understand that he has famous clients, he's worked with P Diddy, all of which is true on paper. And *The New York Times* reporter said, well how big is he, where do you put him between Gruben and Rubenstein? I said, well, Rubenstein – we don't know numbers for Rubenstein. He doesn't tell us his revenues, but 5W Public Relations is about a $3 million firm and if you look at [Evelyn] or Wyatt, that's the biggest independent PR firm, it's, what, $250 million now. And it took him aback, he had sort of bought into this PR spin that this guy was a real big shot in PR. Meanwhile, I have Timothy O'Brien on the other hand who was talking to me about one of the major things that came out of all this, which was that polling companies are largely responsible for putting pressure on firms like Ketchum and Fleishman-Hillard to make them more money for the companies.

So these two themes both emerged in the newspaper, a lengthy profile, flattering profile, of Ronn Torossian appeared only a couple of weeks after that lengthy article about the Ketchum issue, which really focused in a disproportionate way, on the holding company's sort of oversight of these PR firms, particularly for a company like Omnicom. So, what does that mean? There's still a huge misunderstanding in the mainstream media about what the PR industry is about – what it does, what kind of business it is, how it's run, how it's managed, the oversight, who are the critical players in PR – and I think that's something that the PR industry has long avoided having to confront and account for itself as a real industry. And it's in the spotlight now; we can't avoid it.

> "And I think public relations at its best is about advising and counseling our leadership for the world, on the agency side, on the corporate side, or even in the academic side, to make decisions that are defensible in the court of public opinion as well as the court of law."
> – *Martin*

So this is going to be ongoing and there are a lot of issues that we are coming across regarding disclosure with PR, with PR agencies and agencies part of holding companies. But also the bigger issue of PR's role in the government process – what is the role of public relations counsel in trying to educate the public on a piece of legislation – and that's having serious repercussions.

We had a reporter talking to a guy from one of the sort of tangential government organizations, but I won't say which office he was from because he was off the record. She asked him about this PR project they were undertaking. And he said you can't call this a PR contract – don't you know about Fleishman-Hillard and what's going on here? Because it has had such a chilling effect on what they do and how they're communicating to the public that they're afraid to even say the words PR and that's a very dangerous trend.

ARGENTI

Tom, from a Page Society perspective, how bad is this for the profession and what kinds of activity have you focused on?

TOM MARTIN

I think it is a serious issue because I think it goes against what is really our bread and butter which is credibility and trust and I think to have that much press coverage in such a short amount of time that further erodes and weakens the credibility of the profession is a serious issue. But, for the purposes of your students, for the benefit of your students, just a little bit about Arthur Page because I think that's interesting in contrast.

Arthur Page really wasn't a publicist, Arthur Page was a business counselor, he was a business counselor for AT&T back in the 20's and 30's and 40's and met with the Board of Directors, not just a PR person who was handed a press release to get out. And I think public relations at its best is about advising and counseling our leadership for the world, on the agency side, on the corporate side, or even in the academic side, to make the decisions that are defensible in the court of public opinion as well as a court of law. That's really where we're at our best. Now the problem is that it's kind of boring and what gets attention are the publicists or the celebrities, the people in the news, some of the names that Julia mentioned and that's really unfortunate, because that's really not what the vast majority of the profession is about and certainly not what we're most credible at doing, which is advising our organizations to make better decisions.

> "Nobody should care more about media credibility than PR people because if the credibility of the media is fundamentally undermined, PR has no function."
>
> *– Hood*

Now what I think we should be doing as a profession, as I've said before, is rather than picking up rocks to throw at each other and say who's doing what wrong, and that was one of the things about the Tim O'Brien article that I found most disappointing was how we kind of piled on a bit. This is not about one firm, or two firms, or three firms; it's really a chance for the profession to examine our own practices and say are the things that we're doing credible and transparent and believable by our public or are we at times trying to obfuscate the source of information and, to the extent that we are, we need to change those tactics and do things differently. I think it's really given us an opportunity to hold a mirror up to ourselves and say what could we do to help ourselves be more credible as a profession because these students who are going to be entering that profession, I think they're asking those same kind of questions as well.

ARGENTI

I know we've been focusing on public relations and communications, but aren't media people also pretty bad at this same kind of thing? Yesterday, in *The New York Times* there was an article that the title was "Extra, Extra Read Not Quite Everything About It." Ron and Julia – just to put the focus on the other side for a moment – I'll just read you the beginning and then we'd love to hear your comments. Last Wednesday, a lengthy editor's note scooped a scoop by the fan on the toxicity of scoops. The note addressed irregularities in another front page *New York Times* article on March 31st by Karen Harenson and the article was entitled, "Columbia Panel Clears Professors of Anti-Semitism." The *Times,* the note explained, had been given a one-day jump on other media in exchange for its agreement not to seek reaction from other interested parties. While acknowledging that this was in violation of *Times* policy, the note said editors and writers did not recall the policy and agreed to delay additional reporting until the document had become public, so in fact they did do this and isn't this exactly the same thing only now it's the media pulling some of the same tricks. Ron?

ALSOP

Well, I don't think it's exactly the same thing, but obviously the *Times* has apologized for it and it certainly goes against their policies and I think any good journalistic practices to do something like this. In fact, I've got lots of exclusives and lots of offers for exclusives throughout my career and I've never had anybody attach such a condition, so it struck me as highly unusual as I read the editor's note. It's hard to believe that it even happened, that Columbia would ask them to do that because honestly I've never had anybody do that. I've gotten exclusives on mergers; I've gotten exclusives on ad campaigns. That's not part of it.

There is a scoop mentality in journalism that's probably getting more so because of all the 24-hour cable TV channels and the internet. Information comes fast, so for a newspaper to have an exclusive is trickier these days because of all this competition from electronic media. So I think there is a desire to get scoops as never before but you have to be careful. On the other hand, when you have a scoop, you certainly don't want to gap the other media, but that doesn't stop you from getting a reaction.

As I said, I once had a scoop on a merger involving Smith-Kline that was a big deal and I still was able to call analysts and felt comfortable that I was going to protect this for the

12 hours or whatever until my deadline, but I certainly wouldn't have let that stop me from getting a reaction to the story, because you're providing a reader with a very incomplete story as the *Times* did apparently with getting [student] reaction to this report.

So my take on that is, yes, the media does make mistakes and we've seen a lot of them the past few years. In fact talking about reputation, the media's reputations have taken a real beating between the major papers that had reporters fabricating stories and between the Dan Rather controversy over President Bush's National Guard record. So I think that the media's right in there with the PR industry in terms of having some credibility problems. That said, I would say *The Wall Street Journal,* I think, does a good job of trying to be as transparent, as open, as ethical, as possible. I can't imagine us ever being in a situation where a fabricated story got in print. I think one of the reasons for that is we have so many layers of editors that our stories go through. You have an editor that you report to, then there's a page editor, then someone in the managing editor's office reads the whole paper every night before it goes to press. So I think we have so many checks and balances built in that that's one of the best ways you can prevent things like that from happening.

ARGENTI
Julia?

HOOD
Can I just add, this is something I've been talking a lot about lately – nobody should care more about media credibility than PR people because if the credibility of the media is *fundamentally undermined, PR has no function.* The job of the PR person isn't to convince a reporter not to do their due diligence so they can get a great story, it's to have a great story happen because they did the best work that they could because they're great reporters and they had no choice but to write a great story because there's a great story there. And I know that sounds simplistic, but I think perhaps there's a lot of sort of self analysis in the public relations profession and people get very wound up about the reputation of the PR industry and rightly so. And what do people think of us, people don't understand what we do. To a certain extent I think a lot of that really needs to go to protecting the integrity of your reporter contacts and helping them be the most valid incredible people that they can be. They're the ones telling the story ultimately, not your spokesperson, not your CEO, not your president; it's the reporter who is the ultimate storyteller. And if they're not credible, PR means nothing and this profession will be nothing but a commoditized industry turning out press releases.

ARGENTI
But how do we define transparency in a situation? Clearly, I think all of you would agree that he probably should've said that he was working for the Department of Education and maybe if he had it to do over again, I guess he probably would. But where do you draw the line? The whole job that you have in public relations as far as a reporter is to present a slice of life and not tell the entire story. You have a point of view and you want to say something, particularly.

MARTIN
Yeah, I'll pick up on that. One of the things that I think we've got to be asking ourselves is, when we disseminate information – whether that's in the form of a press release, a video news release, which is a perfectly acceptable tactic to use, setting up a speech, forming a study group, administering a survey – as long as it's clear to the ultimate consumers of that information who sponsored it, who paid for it, then I think there's no real argument. But I think what has happened in the past is that some of those tactics have been done *not* to make it apparent who's sponsoring it, but instead to disguise who's sponsoring it. That's the tactic, or that set of tactics, that I think we have to really examine very closely now. The bar has clearly been raised and we've got to respond to that.

ARGENTI
Any other comments on that?

ALSOP
I agree with you that every reporter has a point of view to some degree, but I always try to make sure my articles are fair, that's my standard. Do I give every side a chance to respond if there's somebody attacking them? I'm not saying that I don't break because of what I choose to report and what I don't print. I know that and I interpret and I analyze, but I don't think that I do anything that's unfair in my arguments. I think I give every side a chance to comment. To me, that's the difference between a fair article and one where they're not disclosing everything. It's hard for me to relate to this case in some ways because I've never really been in this situation in any article I've done. I've never been paid by any company or PR agency to do anything, so to me that's unconscionable. You should never be in that position if you're a true journalist. You shouldn't be paid to disseminate information.

ARGENTI
That's a good question, what is a true journalist?

ALSOP
As I said earlier, the lines are blurry with all those bloggers out there. But even with bloggers, I'm assuming they're not paid to write what they do and they're bloggers. It's their opinion, they feel strongly – I view them more like Op-Ed columnists, not as reporters – because they're very opinionated and I don't think they're giving the other side a clear shake. But I also don't think they're being paid to write. I may be wrong, which is unfortunate, and if they are being paid, they should disclose.

KOTCHER
I'll jump in here for a second, Paul, if I can. I do think as Julia pointed out that this introspection on the part of the media, part of journalists, in trying to find who they are in this new world, this new media world that we're living in today, is part of what is contributing to our confusion out there. You know, if you take a look at the media world today, there are certainly the traditional media outlets, *The New York Times, The Wall Street Journal,* then there are the online versions of those publications, then there are excellent journalistic outlets that are purely online, and then there's that whole other world out there of people who call themselves experts who may or may not be objective gatherers and interpreters of information.

"Well I think that everybody, certainly everybody in the major agencies, all agencies, all PR agencies, as well as corporate communications departments – after what's happened the last few months, has to go back and take a look at what they're doing and say are we doing the right thing?"
– *Starmann*

And, so what you have today is an information environment which runs from the very traditional media and a very traditional model to one that is just now being discovered. And when I said this before, I was being somewhat general just for the point of time, but this whole area is going to be defined very clearly over the next three to five years.

For example, the Federal Election Commission is now looking at the very issue of what is a journalist, because the Federal Election Commission, if you think about it, has the responsibility to oversee the campaign financing law and to regulate the campaign financing, and to watch over the campaign financing laws and to make sure that they're being adhered to. Well, if a journalist is engaging in a campaign and a journalist is a blogger, or a journalist is a paid for blogger, or it's an online publication or an online outlet for major media or the major media itself – right now they have very different standards. All those standards are very different for all of those groups.

But if you take a look at it – should there be standards that are the same for everybody when it comes to election laws. That will force a discussion about what is a journalist and what are the rights of bloggers versus the traditional journalist like Ron. Do the first amendment rights cover a blogger, and what are their responsibilities in disclosure?

There was a very interesting case in California two weeks ago. Ron, you might want to comment, because I thought again, this is being tested by regulators in Washington, this is all being defined in courts right now, this whole idea of what is a journalist is being looked at all over the place. Sooner or later, this will get to the Supreme Court. Maybe five years from now, maybe two years from now, maybe 10 years from now, but this will get to the Supreme Court.

ALSOP
It was a pretty narrow decision that bloggers were not considered journalists in this case, but I think you're right; it will have to go to a higher court that will be willing and brave enough to try to define this area. Now at *The Wall Street Journal* it's against it – we would be fired if we participated in a political campaign. Any news department employee flat out can't participate in any political activity even if you don't cover Washington. I guess what really bothers me as a journalist is to see all these people who call themselves journalists.

KOTCHER
Right.

ALSOP
The whole idea of objectivity – while there's no perfect objectivity, but anything close to objectivity – is out the window. I just think it's hurting our reputation as journalists who are objective as much as possible and fair minded because of all these people – because the public unfortunately has a rather low opinion of the media in general as an institution. This is really I think going to undermine it further.

ARGENTI
OK. One last question, then I will open it up to the audience. Dick, what advice would you give people in public relations today to try to solve this problem or to try to avoid this problem or in general just to think about this problem in a different way from your perspective in crisis communication?

STARMANN
Well I think that everybody – certainly everybody in the major agencies, all agencies, all PR agencies, as well as all corporate communications departments, after what's happened the last few months – has to go back and take a look at what they're doing and say are we doing the right thing. I think there's going to be more scrutiny on this. This is no big revelation. There's going to be more scrutiny, there's going to be more regulation than there ever has been before, although I still believe that if somebody has to go take a look at the regulation or the policy, they don't get it. Because I think there is some basic disclosure that we were talking earlier about. It was as I said earlier, it would be like me talking about something that relates to the fast food industry without revealing the fact that I spent 27 years under the golden arches of McDonald's. I think that's relevant to my discussing that subject and that people ought to know, good, bad, or ugly, or whatever they think of it, but I think there's a relevancy there and, as I said, I don't need to go check a policy in order to reveal that. I think it's just the right thing, I think it's the right thing to do, and I think people instinctively know what's right.

ARGENTI
OK. I'm going to turn it over to the audience for a minute. I'm going to ask a couple of people to comment first. Kevin, why don't you ask the first question since you're sitting there?

QUESTION
I guess the first question would be for Mr. Kotcher. When you subcontract your contract out to Armstrong Williams, was that part of the Department of Education mandates on how you got the contract and subcontracted to them or was the decision made on your own and how did that come to be?

> We did communicate aggressively with our clients and with our people internally. We kept our clients and our people up-to-date on a weekly basis about what was going on, but publicly I just did not want to get out there until I was confident in what had happened.
> *– Kotcher*

KOTCHER
I guess, just that so the people on the telephone can hear the question, I'll repeat it. Kevin asked a question did we choose Armstrong Williams for the subcontract or did the Department of Education ask us to work with them?

It's a very good question and every piece of evidence that we have shows us he was in discussions with the Department of Education well before we even knew that he had agreed to do this program with the Department of Education. With whom? We know some of the people, but how high up into the organization it went, we do not know. We do know that he had discussions prior to our engaging with him and because we had that prime contract, all subcontracts, every subcontract under No Child Left Behind, had to be run through Ketchum. By the way, the Department of Education and the Secretary of Education have the authority to make decisions up to a certain dollar level about contracts and subcontracts. They don't have to bid everything up to a certain dollar level, but over a certain dollar level they do. So they do have some autonomy. So those discussions were being held in advance and because we had that prime contract, we got the subcontract. And as I said for the management of the subcontract, the total value to the contract to Ketchum was $2,503.25, so you know this was not a money-making proposition for us. This was about us managing the larger contract.

Now that being said, you know, sometimes a client will come to you and say, use this person as a subcontractor, and other times we'll go out and choose our own subcontractors. It really depends on the contract and you know the scope of work and what you need to get done. In this particular case, that's what our evidence after examination is showing us in that subcontract. Does that answer your question, Kevin?

QUESTION
How often with your government work do you get subcontracts that are predetermined from different departments?

KOTCHER
I don't know the answer to that question. Sometimes they have people they want to work with and because you have a prime contract, you work with those subcontractors, and other times we get to choose the subcontractor. But I don't know how it breaks out.

ARGENTI
OK. Monique.

QUESTION
First of all, thank you Professor Argenti, you know how I really like the cold calling. I'm a little troubled with a few facets here. If you can't manage your own way through a PR scandal, how do you justify to your clients that you're going to be able to help them?

KOTCHER
Paul, do you want to repeat the question?

ARGENTI
Thank you, Monique. I think the question is how can you hope to help anyone else if you can't solve your own problems at home? It doesn't sound any better coming from me.

KOTCHER
As I said before, it's a very fair question. The path we took is not the advice that we would commonly give a client. In this particular case, we were not, however, giving advice to a client – this was Ketchum dealing with the United States Government. And we were working on both our own reputation as well as the reputation of the government at the direction of the government and for a client. It's a very different set of dynamics than when you are giving objective third party counsel to a client. We were right in the middle of it.

First of all, I do take responsibility for not being as assertive in our original communication as we should've been, because I truly did not have the facts. Before we got out there and started to talk about what was happening, I wanted to make sure that I was on firm ground, that I knew exactly what had happened. So, while it hurt to see everyone taking shots at us I did need to make sure that I knew what I was talking about before I got out there.

We did communicate aggressively with our clients and with our people internally. We kept our clients and our people up-to-date on a weekly basis about what was going on, but publicly I just did not want to get out there until I was confident in what had happened.

Secondly, as I said before, we were dealing with the United States Government, and they had made a request of us, the Department of Education, that they handle the national media. So, remember we were part of this crisis, we weren't counseling somebody, so we had certain restrictions around us as well. But when we could talk, we talked to our trade media. Incidentally, just last week when we knew all the facts, we did have a Q&A piece run in Julia's publication. Please read it. I think you'll see there what you've heard here today.

> In my opinion the minute a journalist takes a payment to express his point of view, they're no longer a journalist and they've crossed over. You can't really go back from there.
> *– Hood*

QUESTION
How much of your revenues is government revenues?

KOTCHER
That's a great question, and that's something I actually should've covered. There's been a number of $97 million going around. If you've been following the stories, you see this number, 97. It's not true. Let me kind of deconstruct that for you so you can understand what that $97 million figure is about.

ARGENTI
So in the article, it said that you got $97 million from…

KOTCHER
I wish we got $97 million, but we didn't get $97 million dollars. We had authorization; we have three government contracts at Ketchum. We have the contract with the Department of Education for No Child Left Behind to do all the communications in support of that act. We have a contract, two contracts with Health and Human Services. As I said before, prime contracts, where we're the master contractor. We have one for Medicare reimbursement, which is educate people about Medicare reimbursement and the new laws and how they can get reimbursed. We have another contract with the Department of Health and Human Services over sex slavery and human trafficking, which is a big issue today. So, we have three prime contracts with the United States Government. Those are our contracts.

Now the $97 million figure that you have seen is the aggregate, that potential value of contracts that were awarded to Ketchum in 2001, 2002, 2003, 2004, and I believe 2005. It was authorization to spend to that level. First of all, we never spent to that level. We spent considerably, considerably, less money and the money that was spent was passed through money to buy advertising time on radio and television. That's what the bulk of that money was for. Again, the fees to the agency – just like when a lawyer puts time on a timesheet – the value to the agency was a fraction, a small fraction, of the amount of money that is being reported in the media. And the only reason I don't want to be specific about it, is in order for me to be totally accurate it would take a tremendous amount of work on our part in terms of auditing and so forth. I don't want to get out there and talk about stuff until I'm absolutely sure of the figures. So when I say to you that the value of the Armstrong Williams contract was $2,503.25, that's the number. I will tell you that the fees to Ketchum over that four year period were a fraction of that $97 million figure.

> The organizations, the corporate communications departments, and the agencies that can figure out how you continue to do creative work, how you continue to do compelling messaging, but do it in a way that's acceptable ethically that follows very high standards of procedures and is also within the legal parameter that we are in today... those are the communications professionals of the future that I believe are going to excel.
>
> *– Kotcher*

ARGENTI
OK, anyone else want to comment on that?

MARTIN
I don't understand what Ray said, but I think the question really gets to a fundamental in all this, which is the question mark being raised about public relations having a place in Washington-related industry affairs, lobbying for legislation, lobbying for things that have already been passed or whatever – and my personal opinion and I think many people's opinion is we absolutely have a place, that's why it's so important that we restore or rebuild credibility because if we lose that we're going to potentially put at risk that amount of money. Which I'll guarantee you, while it may not be that much in this specific instance, if you take the whole industry's revenues from the participating in Washington arena, it's a significant amount of money and a lot of jobs.

ARGENTI
Yes, Steve.

QUESTION
We've heard the transparency mentioned a lot for the problems that the industry's facing right now; I really worry that that is the wrong kind of standard. You know, it strikes me that the media industry is based on the same kind of choice that the investment banking industry is based with relationships with IPOs and investment banks. If you have the choice between disclosing relationships between an unbiased service and one which is exclusively promoting one side, you're essentially disclosing that relationship or separating it. It seems like investment banking is moving toward creating separate businesses, a wall between them, but certainly I think the crisis we're talking about here is we have a guy who is presenting to the public as, in some way, an unbiased commentator and is getting paid from one side.

ARGENTI
So, the question is, isn't this similar to what's going on the investment banking industry and shouldn't we have a wall between these operations where someone like Armstrong Williams would be clearly delineated as a paid spokesman. I think it's not so easy as you would describe as it would be in a company or even at, like Dick's example, where of course he worked for McDonald's, he bleeds burgers or whatever he says…

STARMANN
Ketchup.

ARGENTI
Ketchup, that's what he says. But I think it's a little bit different when you're someone who works for lots of different people – are you supposed to go on television and say, oh by the way, I work for blah, blah, blah, blah, and blah, and before I say anything else, you know it would be like we're running banner about all the people you work for before you get done. But, I'd be happy to turn it over to Julia to answer the question.

HOOD
From what I understand – you're talking about perhaps the media, the separation between the media … is that correct? I mean, in my opinion the minute a journalist takes a payment to express his point of view, they're no longer a journalist and they've crossed over. You can't really go back from there.

I actually talked to somebody at Pew about this and it struck me because he was the first person to say this to me. He said, you know what I keep hearing if he'd just disclosed, if he'd only disclosed, if he'd only disclosed. Nobody's saying paying off journalists is wrong. It's wrong. So, OK, with Armstrong Williams it's not so clear cut, but you kind of always have to have that test going on. You know, if you found out that Katie Couric was being paid off by lets say Kmart to wear their clothes or something like that, how would you feel about that? Well how you would feel if Paul took Ron and me off to the Virgin Islands for a week as thanks for this panel discussion? You have to kind of have that test going on all the time. That's why what Dick was saying is truly poignant, where's the personal responsibility, where's the gut reaction, where are the people saying, boy you know, I gotta say this is wrong, or I think I have to disclose.

I'll tell you as an editor, you go through this every day, every single day you think, have we checked with them, have we disclosed everything that we know we said? You know we got a date wrong for an article that we ran that we cited and I was in agony about, and as a trade journal, we take that extremely seriously. Our credibility is paramount. I mean our journalists don't go anywhere, they don't go on trips, they don't take money. I've been invited to go on some exciting junkets with PR agencies, but it's not appropriate.

ARGENTI

Isn't that an oxymoron – exciting junket with a PR firm?

HOOD

Well, perhaps. But I think there's one more factor about the media credibility that I think is really important. In Frank Rich's piece, he mentions Susan Molinari who is a Ketchum employee, former republic congresswoman and how she would be on CNBC and she never disclosed that she worked for Ketchum. I'm sorry, that was CNBC News' responsibility and I'm sure that Ketchum and Susan Molinari would have been delighted if they'd said she worked for Ketchum. When you see Mike McCurry and Joe Lockhart, former press secretaries of the White House, quoted on any number of media outlets, they rarely give their present PR affiliations – they always say former press secretary. So you know the media has a huge responsibility.

STARMANN

Just quickly, a caboose onto that. I really don't believe, and I don't know for sure obviously, that the Department of Education or Ketchum said we want to give this money to Armstrong Williams because he's a journalist. They wanted to give it to him because he had a show, he had an audience, he had a stage, he was a personality – he was a lot of things kind of all mixed together in one. I don't believe that it was "just the journalist" label, because that in itself doesn't mean anything. All those other things do mean a lot.

KOTCHER

It's interesting. Let me pile onto that one, too, for a second. You know the issue for the public relations industry is that I do believe this is a very important moment for the public relations and the marketing communications business, the broader marketing communications business. This is not just an issue about working with media outlets. I mean, if you think about what are the standards with blogging? You know, what should our standards be? I know what our standards are, but what are the standards of bloggers? What about word of mouth? You know as business students, particularly those who are in the marketing area, you know that marketing is becoming much more important today. What are the ethical responsibilities in word of mouth marketing? What are they with branded entertainment? More and more of the content that you see today that is branded as content on a television show, for example, really has a lot of commercial tie-ins embedded in it. How much disclosure is necessary there? We have an answer for our firm, but I think that this is a broad issue for both marketing and for public relations. And the list goes on and on.

> I think what's potentially happening is a breaking of the trust between the ultimate audience, whether it's employees of a company reading their internal publications, whether it's external audiences, whether it's customers or shareholders.
>
> *– Martin*

As technology changes and as marketing changes and as the broadcast and media environment changes, these are going to become questions we're going to have to ask ourselves. At Ketchum we have put in place revised guidelines about how you work with a spokesperson, how you work with the media, what you should be doing when you're doing a word of mouth campaign, what you should be doing when you're blogging, what you should be doing when you're building a website, what you should be doing when you're booking a media tour, a spokesperson media tour – and all those cases we're talking about disclosure and transparency. We are training our people against that. They've all been trained now as a result of those disclosure guidelines that we have.

We now have workshops going on throughout the agency where we are going out and doing case-based study with people so that we can confront them with these situations and help them think through those kind of things. So, we're taking this very seriously. As I said before, the organizations, the corporate communications departments, and the agencies that can figure out how you continue to do creative work, how you continue to do compelling messaging, but do it in a way that's acceptable ethically, that follows very high standards of procedures and is also within the legal parameter that we are in today and continues to operate within that legal parameter – those are the communications professionals of the future that I believe are going to excel. If people continue to kind of play on the gray fringes, I don't think that the environment is going to accept them much longer.

> I think that you do have to be an intelligent consumer of the news and that does put some responsibility on you and then it's up to the media to give you as much information to make a decision.
>
> *– Alsop*

ALSOP

One point I'd like to make that I think gets lost in all this from a journalist's standpoint is, I was always taught when I went to journalism school that my job was to serve the reader, that I was to keep my independence. That's clearly not happening in the many cases we've discussed here. I get asked frequently by sources I interview, will you let me read my quotes before you go to press? I say, absolutely not. That is just not something that we've ever done at *The Wall Street Journal* or what I ever do as a journalist. I will treat this interview with care and quote you accurately, but I won't let you have a chance to censor what you said before I go to press. So I just think that the reader and the reviewer are the people who are really getting hurt by this, or people losing sight in their effort to promote political or corporate issues in the media's desire to get ratings or scoops or money in this unfortunate case.

ARGENTI

OK. Yes.

QUESTION

I'm just curious; we've talked about PR firms, corporations, government distribution outlets, and their respective responsibilities. We haven't talked about the consumers of media. I'm just curious what the panelists think for what is our responsibility. Should everything we read be done so with a tremendously skeptical eye and, if so, that's a pretty morbid future for us. I'm someone who had no idea that video news releases even existed before.

HOOD

You're not alone.

ARGENTI

Tom.

MARTIN

I think that's one of the issues that's really fundamental here – I think what's potentially happening is a breaking of the trust between the ultimate audience, whether it's employees of a company reading their internal publications, whether it's external audiences, whether it's customers or shareholders. I mean, the shareholders, keep in mind, want certain things from the companies in which they invest as well.

I'll go back to a comment that Ron made early on that I think should be very disturbing to all of us, which is that only 1/3 of people trust what they think is coming from companies, even when they know it's fully disclosed. They still don't trust it. We've got a big job to do to begin to restore that and I think again it comes back to just doing the right thing, as trite as that might sound. People measure you by your actions far more than your words. So you can put out all kinds of press information or advertising or whatever, infomercials, or do this or do that. At the end of the day they're going to say do they make a good product, a reliable service, do they treat their people right, do they deliver return for their shareholders and are they doing those things right day in and day out? That's what they're going to judge us on, not on the spin if you will, because I think spin really is not what we're about, it's about delivering real things to real stakeholders.

HOOD

When you talk about the consumer responsibility, I think that's a really interesting question and reminded me of when Tom and I were called to Charleston not long ago. We were at a class of PR students and we asked how many of them watched *The Daily Show* and a few of them raised their hand. I think fewer than actually did. I don't think they were being completely honest, but one of them was. Then we asked if they thought John Stewart was very credible. One of the student's said that he thought John Stewart was actually more credible than most mainstream news outlets – which is fascinating that this really serves as the news program for young people. My 17-year-old niece watches *The Daily Show;* that's her daily news program. So what is the responsibility there? And I don't have an answer for it, but I think it's something that we should all be puzzling over actually.

ALSOP
I'd like to make one quick point. I think that you do have to be an intelligent consumer of the news and that does put some responsibility on you and then it's up to the media to give you as much information to make a decision. I know, for example, when we get letters to the editor about a story or an opinion piece which is very opinionated, if we know that person has some role that relates to his or her opinion, we put that under their name at the bottom of the letter because it's giving the reader information to decide if they should believe what this person is saying or does this person have an axe to grind? So I think we have to give you as much information possible to be intelligent consumers of the news and unfortunately in many of these cases that we've talked about, the viewer was in the dark.

> "I think that the people who are true reporters and journalists, I think for the most part we're doing our job as well as we have and I think we still do it pretty well."
> *– Alsop*

HOOD
You know, I think the letters to the editor section is probably diminishing across the world. It's very hard to get people to say this is wrong, I don't think you reported this well, I don't think you did a good enough job, I don't think you told both sides of the story. Very demanding.

STARMANN
To put it into your language, if we were giving a grade to the media and the corporations, we'd probably get a D or an F on the basis of a lot of the research. And that's kind of a sad indictment for all of us, because all of us participate whether it's on the corporate side or the media side or the agency side or whatever and how do you change that. It's interesting, we're all in the image business to a degree in various ways, shapes, or forms, but yet the image of our industry – corporate communications, the media, etc. – is probably not as good as it should be for people who are in the business of helping other people with their images.

ARGENTI
OK. Yes.

STUDENT
[inaudible].

ARGENTI
OK, I'm going to summarize very briefly the student's question... I think what he said is that we don't expect much out of public relations, so it's no surprise that you're a bunch of shysters, but when it comes to the media, we trusted you and you kinda let us down. So, Ron and Julia, what do you think about that?

ALSOP
Well, I mean first of all, I don't think that most media are guilty of the things we've talked about. I think that when some of the major media do screw up as they have over the past few years, these are really truly exceptions to the rule. That said, I think that the media certainly has a responsibility in all this and I don't think some media do disclose enough information about where they get their information, or in the case Paul read about earlier, agreeing to take a scoop on the grounds that you don't do any more reporting, is terrible service to the reader. That story that was reproduced by such an agreement would be very incomplete, very bias, clearly the media is doing things that they shouldn't be doing but I still think that there are a lot of good media people who do take these things seriously.

At the *Journal,* for example, we frequently give ethics seminars to new reporters to tell them what our culture is about regarding accountability and accuracy and fairness, so I don't think you should tar the whole media by thinking that we're agreeing to run press releases without checking the facts, without questioning them. I don't think that is happening very often. I think where a lot of this is happening is in the commentary area more than in the journalism reporting area. I think we've seen again changes in the media brought about by technology with the cable news channels and the internet where we have all these pundits speaking out and we really don't know what their stake in the issue may be. And I think it's unfortunate and I guess it's incumbent on the media to try to disclose as much as possible when they have somebody come on air like on the *Larry King Show.* I do think the media has a lot more responsibility in cases like that and they aren't doing the best job that they can. But I think that the people who are true reporters and journalists, I think for the most part we're doing our job as well as we have and I think we still do it pretty well.

HOOD

I would definitely agree with that and it goes back to what I was saying before about the credibility of the media is what PR depends on. Absolutely. If you go to a PR person, and this happens all the time, and they pitch you a story about some new thing that their client is doing or their company is doing and you say, well who else is doing this? And they say, nobody, nobody else is doing this. And you find out, low and behold, at least two of their competitors have the sort of same thing going on. You know, helping the reporter report is part of the function, and if they ask you a direct question you answer it honestly, because you need their thoroughness and their credibility to make your story stand up. If it doesn't, then either the pitch was wrong or you're not ready for it yet. I know it sounds very simplistic, but I think we've really got to wake up – PR really has to wake up as an industry, because if the PR industry keeps trying to do end runs around the reporting process, then the job of the public relations counselor or professional is fundamentally undermined.

ARGENTI

OK. Tom.

MARTIN

Just one thing I would say is that I think it's a little bit tempting for us to focus on what media should do to clean up its house and sort of forget that we've got some cleaning ourselves to do. So, to me our first responsibility in the public relations profession is to say what can we do better and differently to be more truthful, to be more credible, and then we can worry about what media is doing. But, one of the things we are looking at is how can we have a better dialogue between those who are in the information dissemination business or those who report it, so that we're talking to each other perhaps more effectively and defining our roles and the rules governing each other's behavior a little bit better. We've done some of those discussions and I think that will continue – and I hope that's one of the positive things that comes out of this whole situation.

ALSOP

I think it is incumbent on journalists to realize, I mean you have to understand that a journalist has a different objective than the public relations person and they just need to work together. It's a fact that we have to work with PR people and they need to work with us. But you have to always realize that they're trying to push one side of the story and there are probably other facets that they're not telling you about and you have to probe, or as Julia said, we always ask how unique this, are you the only one doing this, and they say yes. Just the other day, a professor, this is from a business school, he said…

> You have to understand that a journalist has a different objective than the public relations person and they just need to work together. It's a fact that we have to work with PR people and they need to work with us.
>
> *– Alsop*

ARGENTI

Not this one, right?

ALSOP

Not this one. But it was another well known business school, the professor said "we believe we're the very first business school to hire an immigration attorney to work with our international students to help them get jobs." And it was so funny because I had just interviewed somebody at another business school that did the exact same thing and I said no, you're not the only one, but I'm still interested in knowing about it. You need your radar to go off when somebody says this is brand new or we're the only ones doing this – "only" is a dangerous word.

ARGENTI

Our 90 minutes is up and I want to thank all the panelists for being here today.

Managing Communications During a Change of Leadership

June 23, 2005

PAGE ONE Panel

Jack Daly
McDonald's Corporation

Clyde Tuggle
The Coca-Cola Company

James Scofield-O'Rourke (Jim)
University of Notre Dame, Moderator

JIM O'ROURKE
Good morning and welcome. This is Page One from the campus of the University of Notre Dame in South Bend, Indiana. I'm Jim O'Rourke, and I'll be your host for the next 55 minutes.

Today's program is the latest in a series of periodic teleconference discussions sponsored by the Arthur W. Page Society. Our topic this morning is "Managing Communication During a Change of Leadership." Our objective is to examine the issues and challenges facing corporate communicators when senior members of the corporation retire, die, or depart suddenly under unplanned circumstances, and perhaps, we'll have a look at planned succession as well.

We have two guests today. Jack Daly is Senior Vice President, Corporate Relations for McDonald's Corporation, a position he was promoted to in 2000. He is responsible for McDonald's global communications, which includes media relations, marketing communications, public relations, diversity communications, education initiatives, internal communications, government relations, public and community affairs. In addition to his broad communication responsibilities, Mr. Daly oversees the meetings and conventions, creative services, exhibit and travel services functions for the company. He has been with McDonald's since 1992 and is a graduate of Marquette University with a Bachelors Degree in Journalism and holds a Master of Journalism Degree from Ohio State University. Jack has been a Page Society member since 1999 and he joins us from the company's headquarters in Oak Brook, Illinois.

Good morning, Jack, and welcome.

JACK DALY
Good morning.

O'ROURKE
Clyde Tuggle is Senior Vice President of the Coca-Cola Company, Worldwide Public Affairs and Communications, and a member of the company's executive committee. He has been with Coca-Cola since 1989. In 1992, he became assistant to Coca-Cola Chairman and CEO, Roberto Goizueta; and in 1998, was appointed Director of Operations Development in the company's Central European Division in Vienna. In January of 2000, he returned to Atlanta as Executive Assistant to the Chairman and CEO, Doug Daft, and was named Vice President.

Mr. Tuggle was appointed to his present position in Public Affairs and Communications in 2001. He holds a Bachelors Degree in German Studies and Economics from Hamilton College in New York, and a Master of Divinity Degree from Yale University. He studied at Ludwig-Maximilians-Universität in Munich, Germany, and he completed the executive program of the University of Virginia's Darden School of Business. He joins us from the firm's headquarters in Atlanta, Georgia.Good morning, Clyde. It's good to have you with us.

CLYDE TUGGLE
Good morning, Jim.

O'ROURKE
Well, the plan for today is to have each of our guests offer a few thoughts on the subject of communication management and executive succession and after some discussion, we'll turn to the phone lines and take questions from Page Society members. Let's begin with Clyde Tuggle in Atlanta.

TUGGLE

Thank you for that introduction. I think I'd like to start just by saying that there's no science; this really is an art. And you've got a number of moving parts in this process between the board from a governance perspective, and the development bench strength within the organization, which is one of the primary responsibilities of a sitting CEO. So I would start by saying that the many moving parts make this a complex equation, made only more complex by the sudden departure of a CEO. But let me put through a couple of points.

The first point I'd like to emphasize and it's one, obviously, everyone on the call is aware of, is that there's no single way to announce any major event, and certainly, the change of leadership proves that rule. But in planning an announcement like this, I think you need to think through some important factors. Let me run through several of these quickly. First, there has got to be a clear articulation about the reason for the change. Two, that needs to be supported with some transparency and definition of the circumstances surrounding the change. And then clearly, as a part of that communication, there needs to be clarity about the record and standing of the outgoing leader as well as the reputation of his or her successor.

"Every leadership change is unique and it requires an equally unique approach to communications and a unique communications strategy."
– Tuggle

I think the state of the company at the time of the change is also important – whether it's under or over-performed, whether a shift in strategy is indicated or expected, whether the successor is an internal or external candidate; either way, you've got to articulate these things in a clear way to all of the stakeholders. In many instances, you have an individual who may not be a known quantity to employees, customers, business partners, and financial community. So the clarity and the precision with which that communication is designed and articulated, I think, is critical. And then, obviously, the role of the Board of Directors in the process is absolutely paramount.

So it's hard to say or prescribe what the right way to do this is. Instead, I thought I'd briefly walk you through the rationale behind our approach when Neville Isdell was named our Chairman and CEO a year ago with the caveat that, and I really want to emphasize this, *every such* leadership change is unique and it requires an equally unique approach to communications and a unique communication strategy.

In our case with Neville Isdell, we were fortunate in many ways. Because he was a leader with a perfect combination of background experience and reputation and those were known both internally and externally before he came into the business, which set up the right table for an effective communication plan. He was certainly an insider who had spent his entire career within the Coke System. He obviously knew our culture. In the time he had been away, which was relatively brief, he stayed close to what was going on at the company. He had a keen sense of what our employees needed to restore morale that had, and I'll be blunt and honest here, I think suffered as a result of the challenges that our business had faced over the past few years prior to his return. I think at the same time, he had the benefit of bringing some distance and perspective to his new role.

In the process of drawing the picture of him and presenting that to the constituencies inside and outside the company, we had real clarity around why he was the right guy. Then immediately upon making his decision to accept the board's invitation to serve as Chairman and CEO, Neville moved very quickly to restore confidence and spirit among the employees, reaching out, touching people. He moved fast, not so much to say "here is what we're going to do to fix everything," but to reach out and begin opening a dialogue. So he wasn't seen as coming in and bunkering in; he was seen as coming in and beginning to ask a lot of questions of as many people as he possibly could within the system.

I think it's also important to say that since Neville had been in retirement for a few years, he felt a real need to reconnect with our global business. In fact, we're in more than 200 countries. So given these objectives, we decided that the right use of his time was to move as quickly as he could into the field to reconnect with employees and make sure that he was beginning to assess what the key drivers of our potential success as a company were.

The other piece of this from a communications perspective, is our job was primarily to provide him with sufficient time to thoroughly review our global operations, to make sure he understood where we were, to level set the business and to do so without limiting him to any specific path. In addition, we wanted to make sure that we were being as forthright and transparent as possible during the process.

So the question is, what did he do? How did he spend his time? I'd start with, and this is very important, he was very clear in terms of telling of the truth. He avoided grand pronouncements about how good and bad things might be. He didn't put himself or the company out on a limb in any way, and he did not go out on a limb in terms of saying how much or how little change might be required.

Specifically, we held an informal employee event outside here at the complex when he first came in, which really turned out to be a magical event, maybe much to our surprise. There was a tremendous outpouring of support from the employees and a sense of enthusiasm that I would say quite frankly, was really overwhelming. And it was nice because it marked the beginning of change, but it marked it without a lot of grand pronouncements or promises.

> "I had a conversation with our board recently in which I said – really our public relations strategy is results. Results will be the evidence that the things that we are doing in the marketplace are gaining traction and there's no better PR Strategy than positive results."
> *– Tuggle*

At that time, he chose not to address specific business issues or specific strategic changes, but rather he was very clear about setting a tone that he's consistently carried through to this day; again, the tone of honesty and respect for the employees. He was clear in terms of talking about what had always made our company a special company and he addressed in culturally specific ways, in culturally specific language, culturally specific to The Coca-Cola Company and things that really resonate with our family. It was about our history. It was about praising the traits of imagination and innovation that really have been the hallmarks of the business. But he also was very clear that whatever the company was going to accomplish, it would accomplish together in a spirit of true cooperation.

I think the other thing that he wove into this which made this transition and the announcement and the communication that followed a bit easier, was he carefully wove in his own personal philosophy about the business. Again, the first primary priority, setting the employees at ease, was done by simply saying that we are not going to cost cut our way to prosperity. The first question out of everybody's mind is are you going to come in and do huge layoffs? And he was able to cut that off at the pass right out of the chute.

Then, the next piece in terms of our franchise system, he reached out immediately to our bottling partners; they're really the critical members of our system, and he was able to connect with them and put them at ease that the way to move forward was going to be a way that included our bottling partners in the development of a clear strategy for the company. Obviously, to the investment community and the media this is important. I cannot overemphasize that he avoided making any kind of strategic diagnosis too soon. Instead, he was clear that he intended to spend the first 120 days talking little and listening a lot. That was really the theme that we were banging away at all along. In the process, it was about downplaying expectations. And then he said at the conclusion of the 120-day review that a clear strategy would emerge and we would communicate that.

So for those who really listened, he effectively foreshadowed what he knew deep inside was true that the Coca-Cola strategy was largely on track, our brand was still one of the most valuable in the world, and our people really wanted to win and they wanted to get to it as quickly as they could.

Interestingly, Wall Street accepted that 120-day review. Everybody stood back. We were clear with the media – "we don't have a lot say right now; when we do, we'll see you." I think, again, when you're clear with the media about when you're going to talk to them there's a sense that they will back off, and at least for some period of time, leave you alone. But I think the important thing here is during this period, we were clear to say that being quiet was necessarily being silent. So as he traveled around those first three months, he was clear in terms of speaking about what he thought needed to be done and he asked questions. That was really well-accepted by all of the constituencies in the organization.

It is important that the CEO during this transition is set up so that when he does communicate – and I think Neville has done this well – he does so in a way that reflects exactly why he is being seen as the steady calming force at the top. Neville was not quick to declare a crisis in the beginning, he was not going to be quick to declare victories either. So this is really in line with this thinking of under-promising and over-performing. Instead, it has been about honesty, being forthright about what's out there, what the challenges are, and taking the time that's necessary to put the plan together that will eventually overcome the challenges and advance the business in terms of the progress that's required.

So it's the honesty, it's the under-promise and it's the over-perform. And it is particularly internally with the internal constituents; the employees, the bottlers, the investors who day-in and day-out want to know what's going on. It's keeping the lines of communication open, but also being clear not to set yourself up for disaster. So you could say that in this instance, his focus has been on teaching and inspiring people, getting them motivated.

Only time will tell, but I think what we have done is set the platform for people to give us some space and step back. We have also given people a sense of confidence that there is a steady hand at the wheel, that the steady hand has surrounded himself with talented management and it's now about results. I had a conversation with our board recently in which I said…really, our public relations strategy is results. Results will be the evidence that the things that we are doing in the marketplace are gaining traction and there's no better PR strategy than positive results.

So I hope that gives you a quick view of at least how we've managed through this. I would make one final comment, Jim, that the less you do this the better.

O'ROURKE

Well, being known for stability and longevity in leadership may now, we would hope, become one of the characteristics of both of these companies. There are perhaps no two brands that are as well-known and as well respected, and perhaps no two anywhere on earth that are more closely connected with each other than Coca-Cola and McDonald's. Thanks very much, Clyde. We'll come back to you. I do have a couple of questions and I know our members do as well. Let's move now to Jack Daly in Oak Brook, Illinois.

DALY

Thank you, Professor. I just wanted to say to Clyde that those comments were excellent and absolutely right on from sort of a ground zero point of view of what you have to deal with in a communications context dealing with the succession plan.

Good morning, everyone. I just want to start by saying that I've had the good fortune to be working with McDonald's now for 13 years, and I'm also a very proud member of the Arthur W. Page Society. And I want to thank Professor O'Rourke and the Society for the invitation and the opportunity to share my perspectives today on this very timely topic of executive succession. I really do look forward to a very lively and productive discussion once we get through these comments.

I'm quite certain that I was asked to be a part of this discussion because McDonald's has had the sad, and frankly, even tragic, distinction of having four CEOs lead our company in the past 30 months. This is really an unprecedented event in the history of large corporations. As a result, we've received numerous questions and comments from communications colleagues, members of the press, educators, corporate governance groups about our approach to managing these very high profile and sensitive situations.

> "…McDonald's has had the sad and frankly tragic distinction of having four CEO's lead our company in the last 30 months. This really is an unprecedented event in the history of large corporations."
> *– Daly*

Today, in the interest of time, I would like to provide a very brief recap of the management changes that have occurred at McDonald's over the past 30 months, really focusing on some of the board activities that took place in the course of those 30 months because I think they're very instructive. And then, to follow that by sharing with you what we now considered to be guiding principles at least for McDonald's as we consider succession concerns. What Clyde was talking about, I think was very much a deep dive into a new CEO coming in and the right things to do, all of which I couldn't agree with more. I'm going to focus more on some of the rules of the road that we picked up along the way that we think help in that matter.

We have had four CEOs in the past 30 months. Jack Greenberg was in the CEO role from 1997 to 2002. Let me just say, Jack was a very, very solid leader. He had three very good years followed by two years where our company underperformed. And so in December of 2002, our Board of Directors took action and brought McDonald's veteran, Jim Cantalupo, back to replace Jack and to lead the company into a turnaround. It's important to note that at the same time the board named Jim Cantalupo as CEO, it also named Charlie Bell, a very dynamic 42-year-old Australian, as our President and Chief Operating Officer. Very significantly, both men were named to our Board of Directors.

So as we transitioned from 2002 to 2003, and from the Greenberg era to the Cantalupo era, we entered 2003 with an entirely new senior management team and a newly constituted strategic revitalization plan that focused very much on the basics of operations, marketing, and dramatic fiscal discipline. One year into Jim's tenure and with business really building momentum, we had tragedy strike. Jim Cantalupo died suddenly on April 19, 2004 in the middle of the night of a heart attack; he was 60 years old.

Within hours of announcing Jim's death, our board took immediate action by naming Charlie Bell as CEO, and for the first time in our history, appointing a non-executive chairman, Andy McKenna, who was then our presiding director. This was really global news all over the world and our board was very rightly praised for its remarkably quick action.

> "Success absolutely depends on the existence of a strategic business plan and a very prepared and fully engaged Board of Directors. The board must have a fully vetted CEO succession plan in place all the time. It's their highest priority, and without it, really nothing else matters in this succession communications effort."
>
> *– Daly*

Then, less than a month later, in May of 2004, Charlie Bell called me into his office to inform me that he had just been diagnosed with colorectal cancer. Frankly, as much as we had hoped and pray that Charlie would be one of the lucky survivors of cancer, it just wasn't meant to be. His health spiraled continually downward and in November of last year, he stepped down. He passed away two months later in January of this year in his home country of Australia.

Again, despite the tragedy, our board was prepared again to execute a succession plan with then Vice Chairman, Jim Skinner, being named and promoted to CEO. This took place in November of 2004. Mike Roberts, Head of the U.S. Business was named the President and Chief Operating Officer. Again, I want to emphasize this, both men were elected to the Board of Directors. Although there were very clear differences between these various succession plans, one for performance, another for sudden and tragic death, and another for a very slow and tragic occurrence, there were also very great similarities.

One was that we had a fully prepared board. They acted very, very decisively. They acted quickly, leveraging what we have in our company which is great depth of management talent and experienced talent all over the world. So we were able to use our system as a "people pump" even as we were losing great leaders.

And really, the results speak for themselves. Despite three management transitions in 2004, our strategic plan that Jim put in place in 2003 kept us on track. Last year, our company delivered our highest global comparable sales in 17 years. We surpassed the $50 billion sales mark. We generated record cash from operations up $600 million from the year before, and our stock was recognized as the top performer on the Dow with nearly a 30% increase.

So throughout all this, what did we learn as communications professionals? First, as Clyde emphasized, there is a definite given – *success absolutely depends on the existence of a strategic business plan and a very prepared and fully engaged Board of Directors.* The board must have a fully vetted CEO succession plan in place all the time. It's their highest priority, and without it, really nothing else matters in this succession communications effort.

Next, in this day and age, speed is absolutely the killer imperative. Frankly, boards can't act fast enough. We as communicators can't communicate fast enough. When it comes to that, we've learned that less is actually much, much more. If you think about the communication that we put out after Jim's death on August 19th, we put out two press releases in maybe three hours after he died totaling six sentences. Now, why did we do that? Because in this 24-hour news channel and Internet world, there are literally dozens of experts, ready and willing, to fill in all the blanks and declare successor failure based mostly on decisive and quick action board during these periods. So, "fast, factual, and finite." In other words, leaving no questions or leaving no dangling questions. Then let the information world fill in the blanks. This has proven to be, for us, a very successful strategy.

Another point to consider, at least in our experience, is that we benefited from our board announcing not only a CEO successor, but also signaling a successor's successor. Not to say that Mike Roberts – our present COO, or Charlie Bell when he was in the job – had the job as a forgone conclusion. But what it did signal was that the board had a very long view of the company, and succession was very much on their minds not just as it relates with the current CEO, but also to his or her successor. This enabled us to communicate a much broader story, a story about our management whole being much greater than the sum of its parts because these are complementary skills. This approach also speaks to the board taking that long-term view and to what something we always want to communicate, which is the depth of talent in our company.

Next, *communicators must be aligned to the board and the brand as opposed to individuals.* I think this is somewhat counter to the way it has been in the past. Obviously, this is tricky business, especially when the board is making a change based upon performance... it's critical in terms of our overall effectiveness as communicators. On this same point, I want to emphasize another hurdle, and that is the emerging role of a non-executive chairman is a very, very good thing in matters of succession. I mentioned that when Charlie Bell became CEO, Andy McKenna was named non-executive chairman. This is a very positive thing for those of us in communications because it provided us with important guidance from the board. It facilitated a lot of alignment with what the board's direction was going to be.

> "Communicators must be aligned to the board and the brand as opposed to individuals…it's critical in terms of our overall effectiveness as communicators."
> *– Daly*

So, really, over the past couple of years, I have worked as closely with Andy McKenna in many instances as I have with our CEO because there has just been so much flux and turmoil in our business in this particular area. And to this day, Andy and I meet on a monthly basis and leadership and succession issues are always part of our discussion.

Next, to the extent that it is possible, we always want to communicate internally first. Obviously, that flies out of the window when you have a crisis or a sudden death. And in that instance, because of disclosure issues, you have to get the information out quickly and you have to rely on just sort of an outside-in approach. But having said that, following an announcement, our rule is less is more externally, more is more internally.

I think you heard Clyde give a very, very good synopsis of what we mean by more is more internally. I would say that our total messaging is weighted 70% internal, 30% external in those critical months after the initial succession announcement. Separately, we have not rushed into providing great media access to the new CEO. His job should be focused on the people in the company, just as Clyde pointed out earlier. This is a message that I think media understand.

Now we've had literally three instances of succession, we provided no in-depth interviews to the media in the first month. This has been a good opportunity for the CEO to engage in the very important listening and learning process that takes place inside an organization when you're finally coming into that CEO job. We all know it is a dramatically different job than any other in the organization.

So "fast, factual, finite", I think are the rules that to me just keep coming to the forefront. I can't emphasize them enough. Speed more than anything else has been successful for us. We as communicators have tried to be very prepared, our board is always prepared, and that has enabled us to move incredibly quickly and to present an image of a company and a board that is acting decisively and knows what they're doing.

So, those are some of the rules of the road that I offer up. I would be delighted to talk about any of them more in detail.

O'ROURKE

Let me remind our members who have dialed in that the Page One teleconferences are, of course, on background, not for public dissemination; and that the statements made by our guests are not for attribution. If you wish to call them directly in a public forum, you should obtain their permission.

Let me move on and ask a question of Jack, and then I will have a question for you Clyde. But, Jack, let me begin with a technical issue. At what point are you or is any corporate communicator faced with an SEC – I'll call it an 8-K issue – that concerns market moving information? And how do you go about handling those announcements? What are the requirements of the markets and the SEC and how do you address those?

DALY

Obviously, it's going to differ on a case-by-case basis. I'm not the Chief Legal Officer and their opinion always counts. But in a death of the CEO, the ruling would be immediately. You have to publicly inform your stakeholders that this has occurred because it's clearly a business-impacting issue. In the case of Charlie Bell where you had a man who was sick but we clearly hoped that he would get well – we felt a need to communicate immediately. We were further guided by our legal team to communicate immediately that Charlie had developed colon cancer because it was clearly a disclosable issue. However, as it related to discussions of his job, that was not something that we dealt with until, literally, the day that he resigned.

O'ROURKE
Clyde, I know that you were an executive assistant to Roberto Goizueta and there were some discussions when Roberto was first diagnosed about holding back on public announcements. Can you fill in any of that background for us?

TUGGLE
In some ways, it was a similar situation when Roberto was diagnosed. It took several weeks for us to get real clarity in terms of his medical condition. This relates to exactly the point that Jack was making about disclosure, because anything that is material needs to be disclosed immediately. So our approach was to disclose what we knew, but we were also very mindful of two things; the family situation and that this was absolutely unexpected. I think it is safe to say, and this is a bit of self-criticism here in terms of our company, that we were not prepared for this type of event. I think that's the transparent truth. So there was a bit of scrambling that was probably not healthy in terms of being able to articulate clearly and quickly what was going on.

Now, the other instinct piece of this was that his succession was in place. The board was clear about that. Roberto had been clear about it. It was something that he was committed to. He felt like that was perhaps the most important dimension of a CEO's job, and so Doug Ivester was there. The company never missed a beat while in a tragic situation. Doug was there, he was ready to move in quickly. Before Roberto died, he actually handed over the CEO reigns to Doug.

Then, the first year after Doug took over, was the year that the business did extremely well and we saw the stock price move up. But I think it is fair to say we were not prepared. That's the bottom line.

> "Fast, factual, finite – I think those are the rules that just keep coming to the forefront. Speed more than anything else has been successful for us. We as communicators have tried to be very prepared, our board is always prepared, and that has enabled us to move incredibly quickly and to present an image of a company and a board that is acting decisively and knows what they're doing."
> *– Daly*

DALY
Can I just add one point because I think what Clyde said there is very important – the word "unexpected." In the first line of the first sentence that we wrote about Jim Cantalupo's death, we wrote "sudden and unexpected" because we wanted to signal very much to the marketplace that there was no prior knowledge or any disclosure issues whatsoever – a very important point in today's world.

O'ROURKE
Clyde, is it true that Doug Ivester did not appoint a number two right away? Was there a period of time where he operated alone at the top?

TUGGLE
During his entire tenure as CEO, he did not have a number two. So the structure was the operators and the lead functional heads were reporting directly into him.

O'ROURKE
Has that structure changed now that Neville Isdell is in place?

TUGGLE
No, that structure has not changed. When Doug Ivester left – and I think that was yet another very unexpected departure – it wasn't clear who his successor was going to be before he left. Reflecting on Jack's comments, if there is a gold standard, if there is a best practice for management succession, it is McDonald's by far. In terms of clarity around succession, clarity around the board and the governance role they play, the ability to move, as Jack said, in a fast, factual, finite manner, that is absolutely the gold standard, I think, in American and global industry today.

DALY
I think another thing that the board did, which is exactly on this point, is that they not only named a successor, they indicated in very strong terms a successor's successor. So your question, is there a number two? In our company, there is philosophical point of view of the board that it is not the individual's role but rather the board's role to consider a number two.

TUGGLE
Jack, that speaks directly to your point about transparency. Quite frankly, it allows the shareowners a sense of comfort, and I think if there are questions, it sets up a transparent environment for them to ask those questions.

DALY
You're absolutely right. The second individual appointed to the board is viewed differently in the way they do their business.

O'ROURKE
Let me ask a question of either of you before we open it up to audience questions. Let me begin with Jack and just say, a number of studies have shown a strong correlation between the image of the CEO and the image of the company – Burson Marsteller's study is probably the most famous in this regard – showing that there is a substantial link between public perception of the Chief Executive Officer and the public perception of the brand or the corporation. So is it helpful to focus on stability and capability and steadiness throughout the tenure of a Chief Executive? Is there any danger that as you focus on people down the line as a successor's successor or on people running business units, that it might somehow distract attention from the Chief Executive? Was there any concern about that?

DALY
Now, I can only speak for McDonald's. We don't have that concern. I think at the end of the day for interested stakeholders, in particular, shareholders, one of the most important things that they're interested in is depth of management. I think that the more you spread the wealth about the leadership that a company has, like a GE, the more faith that investors and others have in the company. I would also say that that idea of the connection between the CEO and the brand, to me, was an idea that really was rooted in the 1990s.

What we're seeing in this 21st century, especially in this last few years, is this transition to the board and the governance of the company being connected to the brand, certainly in the post-Sarbanes-Oxley's world where governance becomes critically important to the stakeholder. This gets back to the point I made before about non-executive chairman. I really think that this is an exceptionally good thing. The last figures I saw were that about 20% to 25% of major corporations have them. In my experience, it has been very much a value-added occurrence.

TUGGLE
If I could just resonate or support what Jack is saying…the name of the game here is stability. Stability is a function and factor of depth of management and experience throughout the organization and the extent to which you can demonstrate that, that is the name of the game today. I mean, in the era of the big personalities, as Jack said, and the great man, we're moving beyond that because people are looking for sustainability in their businesses. What they've seen time and time again is this model of the big personality, the personality of the leader overwhelming the personality of the brand is not a sustainable model.

> "Stability is a function and factor of depth of management and experience throughout the organization and the extent to which you can demonstrate that – that is the name of the game today."
> *– Tuggle*

O'ROURKE
Our first question, we'll go to the line of Kathy Tunheim. Please go ahead.

QUESTION FROM K. TUNHEIM
I will address both Jack and Clyde. You each have spoken about the importance of the board, and I'm curious about the consideration – both when you have a non-executive chair as you see now at McDonald's, or in a Coca-Cola case – the consideration that you went through and the decision you made relative to using an independent director in any direct communications, either with outside stakeholders or internal.

DALY
We had Andy McKenna serve as our primary sort of source for information externally in the three successors that we went through. I think that in this day and age, we have moved to a new role for the board which is either a non-executive chairman or a presiding director becoming a more public figure for the face of the company.

TUGGLE

I think that you need that independent voice. During our most recent transition from Doug Daft to Neville Isdell, it was an awkward, and at times, a messy process because we had this public search going on and at the same time said that the guy who was here, Steve Heyer, as president, was a very capable fellow. They wanted to have a look around the block. They wanted to see the rest of the talent that was out there. And by virtue of making that, effectively, a public search, it became, as you all know, a fairly problematic process.

But at the same time, Don Keough had been named the head of that search committee/search process, while we had agreed that he was not going to be the public face. In other words, there wasn't a lot to say until the decision was made by the board about who was going to be the CEO. There was somebody there who had an independence from the rest of the board who, at times, on background or at times with employees, was prepared to speak to the process. I think that, during a process that I would not categorize as easy or necessarily stable, that voice of independence provided a sense of continuity.

The other thing I would say is that voice, even if it's from an independent director, needs to be somebody who knows the business well. The great thing about Andy McKenna and McDonald's is he has been around a long time. He knows the business. He knows the players. He understands the system. So that individual has got to speak with a sense of knowledge and authority about the business itself.

QUESTION FROM W. JENNINGS

In the comments, you talked about limiting the media's access to the CEO in the first 100 days. How would your advice change should the previous CEO have announced to step down for malfeasance, which we're seeing quite a bit in the media today?

DALY

It's a good question. I think my initial reaction is I don't know, but I would say that it wouldn't change much. If you recall, I said that we're not limiting all messaging to the press. It was sort of like 70/30 or 75/25, really trying to focus internally. But that 25% external is obviously critically important. I think the point about the first messaging out of a new CEO, whether he is replacing somebody who was removed for performance or for malfeasance, has to do with accepting the brutal facts of the situation. He or she has to be brutally honest about the facts and not trying to sugarcoat them. I think that can be done in that important 25% of the communication that is external. I think the most important thing is that the new CEO comes in, and as Clyde said, is absolutely truthful and factual and is willing to state that he or she is there because there were problems and they are there to correct those problems.

> "The internal audiences are your most important external communication vehicles. There is no such thing as just an internal communication anymore. It doesn't exist. That internal communication becomes an external communication. If you can get that right, then you have a tremendous tool for getting the message out to the outside world."
> – *Tuggle*

TUGGLE

Yes. I mean, Walter, I think the idea here is transparency is the key. The CEO, the new one coming in particular, has got to be very clear about…here is what I know, and here's what I don't know. That individual has got to create space with which he or she can collect the data and the information to move the business forward. But in a situation with malfeasance, my sense is it's transparency. If you're not out of the shoot and really honest about what's going on, you're going to get nailed.

DALY

But it's also important to give that CEO the time he or she needs to really find out what happened and what we do to fix it before they start trying to address a lot of issues publicly. But I also believe, as Clyde said, there's art and science here. This very much falls into the art side because malfeasance takes many forms and it might differ in terms of a reaction.

QUESTION FROM A. GOLIN

Good morning. I've enjoyed it very much. In speaking with Ralph Larsen, the former CEO of Johnson & Johnson, he told me that he spent 75% of his time in communications, both internally and externally which warmed the cockles of my heart and all of us, of course. But how do you convince the CEO who maybe doesn't have that kind of affinity or interest or priority, to spend the kind of time that we all think is necessary to perform in his role?

TUGGLE
I think you take a company like McDonald's or Coca-Cola, I mean, the simple fact is we manage a very big idea. You have to be in a communication mode all the time. That's a simple fact. I just don't think this goes back to maybe the succession process and the selection process by the board.

O'ROURKE
Clyde, let me sort of piggyback back on Al's question and ask, would you provide regular training, regular briefing, regular conversations, talking points to that CEO as a form of encouragement?

DALY
Can I offer an anecdote as an example? Jim Cantalupo came into the CEO job, and for those of you who knew Jim, he was a very tight-lipped man. He knew what he knew and he was a very focused guy. Al, you know him as well as anybody. I don't believe that when he took over as CEO that he felt that he would be spending a lot of time in communications. But I think the fact is that in this day and age, it's inexorable. You cannot *not* do it. The great surprise to Jim Cantalupo was that within literally months almost his entire job was communications. He said that and was somewhat frustrated about it, but the fact of the matter was he knew that it was critical. There are so many internal and external requirements that are pure communications that are unavoidable and inexorable. You just have to keep at it. Pretty soon it becomes second nature to you. That is the mark of the great CEO, the person who can manage and handle all that communication without letting it overwhelm them. I think Jim started to master that, and Al, I know you had conversations with him about this.

GOLIN
I think you're right. He is a guy who came from an accounting background and is very conservative. But I think he learned to like all that, too.

DALY
Jim Cantalupo had good momentum in the business. He also was a person who was a real straight shooter and he was naturally transparent. If you ask him a question, you would get a very blunt answer. So I think his style is becoming more and more right for today's CEO.

TUGGLE
You know, one of the things that Neville was clear about when he came in, was he was going to be a communicator. He was going to spend time communicating. But this past year, it was about the bottlers and the employees. That's really where 70% to 80% of his time has been spent.

DALY
Correct.

TUGGLE
The focus is on getting morale right, getting confidence back, making sure that the leader is seen first and foremost internally transparent. But I'll tell you the other thing...the internal audiences are your most important external communication vehicles. There is no such thing as just an internal communication anymore. It doesn't exist. That internal communication becomes an external communication. If you can get that right, then you have a tremendous tool for getting the message out to the outside world.

DALY
I couldn't agree more. In a company like ours of 1.6 million employees, there's a certain feel that an internal audience can communicate through a million different ways to the outside world that we're either going forward or kind of back on our heels.

TUGGLE
But don't you think, Jack, too, that this is part of the redefinition of an effective CEO?

DALY
Absolutely.

TUGGLE
Yes. He is really, as much as anything, an ambassador for the business to some of the stakeholders.

DALY
Which underscores the importance of having a very strong "number two" in place to run the operational side of the business, because the CEO's job is changing.

QUESTION FROM M. FERNANDEZ

You guys did a great job. I was impressed by the strategic overview learning about what you tried to achieve during your changing of the guard. What I'd like you to do for the rest of us, though, is take it a little bit more tactically. Give us a sense of what actually changed in terms of the numbers and the quality of the various communications that you had with employees, as well as external audiences.

DALY

I'll start. We're a decentralized company, so we have always been very aggressive internally and externally. For McDonald's, I think that the tone changed. For us it was much more tonal. You had a company in McDonald's that had been successful for so many years, so many decades, and suddenly, we were underperforming and, as you know, there can be a great media pile on when you're underperforming.

So we were really getting bashed. I think back in the late '90s, we didn't know how to respond to that. So we tried to keep the same tone of this very successful company when the reality was we weren't being as successful as we wanted to be. It really took a new CEO, like Jim Cantalupo, to come in and change that dynamic and be willing to talk about the fact that things are not as good as they need to be. Once we could do that, it was like there was this weight that had been lifted from the organization. Everybody knew that but we just weren't saying it, and I think that was a big change for us.

TUGGLE

Yes. In our situation, I'll actually give you some tactical things because the impression was that our prior CEO had bunkered in and that we had shutdown communications both internally and externally. So it was a very clear strategy that we laid out to the CEO and it started internally. So we ramped up employee meetings. We got it in front of the employees. Wherever he traveled, there was always an employee gathering; most of those were Q&A sessions. Again, we were trying to create an atmosphere of transparency, first and foremost. We've got them out there on backgrounders because we weren't going to go on the record with some of the media.

> It was a very clear strategy that we laid out to the CEO and it started internally. So we ramped up employee meetings. We got it in front of the employees. Wherever he traveled, there was always an employee gathering; most of those were Q&A sessions. Again, we were trying to create an atmosphere of transparency, first and foremost.
>
> *– Tuggle*

But the idea was not only to let them have a sense of who is this guy, but also to reestablish with the media that we're not going to bunker in. We're going to communicate with you but we're going to be careful when it's on the record and when it's off the record. The next thing we did was to ramp up the one-on-one conversations with the analyst because it was an environment where there was a high level of uncertainty among the analysts about whether the way forward was going to work or not. So they needed to see and touch this guy and get a sense of confidence that he knew the business, he knew what he was doing, and he had the kind of leadership, personal leadership capabilities that were going to be required to take the business forward.

QUESTION FROM M. FERNANDEZ

How frequently did he interact with them?

TUGGLE

Early on, very frequently. I'd say every couple of weeks we were in front of someone. Then the other thing we did was we revisited all of our internal communications. We ramped up EOMs. We started Web casting him so that when people came in, they flipped on the screen, they saw something they had never seen…their CEO speaking to them. So the message was we're going to ramp up communications, more dialogue, and that was our objective – stabilizing the business.

O'ROURKE

In keeping with our brand promise, we've taken just one hour of your time. My thanks to Clyde Tuggle of The Coca-Cola Company, and to Jack Daly of McDonald's Corporation. Gentlemen, this was a very productive, useful hour. My thanks to those Page Society members who dialed in and asked questions. And so from the campus of the University of Notre Dame, I'll say farewell.

Hurricane Katrina: Responses Made and Lessons Learned

NOVEMBER 15, 2005

PAGE ONE Panel

Peter Debreceny
Allstate Insurance Company

Art Wiese
Entergy Corporation

Sam Falcona
ConocoPhillips

Barie Carmichael
APCO Worldwide, Moderator

BARIE CARMICHAEL

Welcome to the Page One Teleconference. Today we're going to offer three different perspectives on managing reputation before, during and after a natural disaster. Peter Debreceny, Vice President of Corporate Relations with AllState is going to offer his insight from the perspective of a casualty insurance provider. Art Weise, Vice President of Corporate Communications at Entergy will discuss lessons learned from the perspective of a utility provider. And finally Sam Falcona, Vice President of Corporate Communications and Public Affairs with Conoco Phillips will offer his insights from the perspective of a petroleum and natural gas provider. And thanks to all of you who are going to share your insights.

On logistics, we've all agreed that we want to strike a balance between offering the thoughts from the speakers with your ability to offer questions. Three speakers can cover a lot of time, so here's how we've organized today's call. Each speaker will have 15 minutes to offer both their insights for about 10 to 12 minutes and then field questions that you may have specific for him. Then in the last 15 minutes of the call, we'll have a question/answer session that can be fielded by any one of the panelists. That lets us avoid having one long block of talking. With that overview, I'm going to turn the floor over to Peter Debreceny.

PETER DEBRECENY

Thanks Barie, good afternoon everybody. I'm going to quickly go through what happened and then deal with some of the lessons learned that we had particularly from the communications perspective. Katrina and Hurricane Rita, which came shortly after and we think about as one event, cost us the bulk of four and a half billion dollars in pre-tax claims costs that we booked in the third quarter. So by far, this was the most significant catastrophic event for us ever in dollars – actual dollars and real dollars. Compared, for example, to the hurricanes in Florida last year – the four hurricanes that criss-crossed the state cost us about two billion dollars in pre-tax. So you can see it was a pretty big issue for us.

We're the number two insurer, after State Farm, in Mississippi and Louisiana which were the two most affected states, after State Farm and we were pretty well geared up for it. We get catastrophes every year, we get hurricanes every year, so we know what we're doing and we can gear up for it pretty well. Prior to Katrina making landfall, we were nicely set up to deal with it as if it was a regular hurricane like any of the ones that had gone through Florida last year. Of course once the flooding happened in New Orleans a couple of days after landfall it became a completely different issue. Our number one issue to deal with was our own employees, our agents, and the agent support staff. We had a relatively light situation probably compared to Art and Sam, we had about 800 people who lived and worked in the impacted area who had been pushed out, personally impacted – in many cases they lost their own homes and vehicles. And with the initial predictions of heavy loss of life, we were obviously very concerned about them.

> "Our number one issue to deal with was our own employees, our agents, and the agent support staff."
> *– Debreceny*

So, we put a lot of effort from day one in tracking our people down, finding them, and making sure that they were okay and getting the support to them that would enable them to get the bare essentials that they needed as quickly as possible. The number two issue was getting our business in the area up and running again as quickly as we could. There was significant impact to agent offices, to some of the claims offices in particular in New Orleans. And phone systems basically went down and stayed down for some considerable period of time. And then our third issue was looking after customers.

From Katrina/Rita we've had about over 300,000 claims. To give you an indication that's probably about 50% more than the hurricanes in Florida last year, and if you recall the Northridge Earthquake in California in '92 there were 45,000 claims there. So, 300,000 claims is a lot of claims to deal with. We had pre-positioned 1500 claims adjustors prior to Katrina arriving, in Jackson, Mississippi ready to go in. So, we had adjusters ready to go from the first day and we ramped them up as needed We currently have about 5000 people adjusting claims in the 4 states on the Gulf Coast and in Florida. The problem for them was it was difficult to get to the worst hit areas, especially New Orleans We weren't allowed into New Orleans for up to a month after Katrina came through. And then the big issue – and its an issue particularly from a communications perspective – is the flood versus wind issue. Basically, your home owners policy covers you for wind damage, it doesn't cover you for flood damage and pretty much all the damage in New Orleans and much of it along the Mississippi Gulf Coast was caused by water events, not wind events and so its added an additional complexity from a claims handling perspective – but also in particular from a communications perspective as well.

> "The media efforts that we normally put in just became completely overshadowed by the size and scale of the disaster."
>
> *– Debreceny*

What went well? As I mentioned, we're geared up for catastrophes all the time. Our business interruption system, which we put in place following 9/11 in which we did a complete overhaul of our crises preparedness system, worked well. We have an independently hosted website that folks can get to, and phone trees and conference calls, all of that worked well. So internally within the business, communication systems worked just fine – apart from the issues that we had keeping phone systems up. Regarding Media outreach, we normally use opportunities like this to demonstrate how folks are in good hands with Allstate. We had that system in place and appropriately manned, as I'll get to in a second.

Difficulties about this particular time? We had to work from the least impacted areas in to the most serious, which is the reverse of what we normally do. The media efforts that we normally put in just became completely overshadowed by the size and scale of the disaster. The flood versus wind issues have caused a lot of problems in the area with folks who don't understand the detail of their policies. Its an emotional issue for them compared to the legalistic language of the contract – so that's an issue for us compounded by lawsuits from Mississippi Attorney General Hood and Dickie Scruggs, a well known trial bar attorney. And the logistics are just enormous – trying to deal with 300,000 claims, it takes longer to get to them and the New Orleans difficulties have magnified that. Folks have been displaced – how do we find them, how do they find us, dealing with third party vendors in terms of claims handling and security – all of that became very problematic to deal with. We're over the hump now in terms of actually dealing with it from a business perspective.

What are our lessons learned? For us we were not well set up to deal with local media in these particular four states, or particularly Mississippi and Louisiana. We had no local trade organizations like we do in many states, so we had no relationships that we could draw on as well as we would have liked. And that's been a problem in terms of negative coverage.

We've been monitoring blogs and that's actually been pretty good. The blog traffic has been not too bad. The big challenge for us is as we've been able to get back in and as the flood versus wind issues have come about the intensity of the communication challenges has increased each week. So trying to get into a war room mentality within the department has been a major issue for us – getting peoples heads out of the day-to-day so that they can concentrate on what is for us a defining moment in terms of reputation management for the business and the industry. Trying to break down barriers, get people to operate with the right amount of speed, and give up their day-to-day work to concentrate on this.

The second big issue is trying to get the industry to get a consistent and coherent approach. That's been a problem which we continue to address. It hasn't happened as quickly as I would have liked, although we're getting there in the next week or two. And then there are a whole bunch of business issues; as I mentioned two billion dollars last year, four-and-a-half-billion dollars this year, this was something like a 1-in-500 year event, but we can't keep paying for one of those every year. We need to find a better way in terms of running our business and we're very active around that right now including legislative outreach. So there's a whole bunch of communication challenges there.

How do we set up and deal with communication issues that keep on getting more and more intense each week rather than easier and easier? This has been one of the big learnings. So, Barie, that's a quick summary.

CARMICHAEL

Any questions before I kind of jump in to offer an initial one? Our first question comes from Angela Buonocore, go ahead please.

QUESTION FROM A. BUONOCORE

My question has to do with the first point that you made regarding the first issue was your employees and I believe you said there were 800 who lived and worked in that area? Beyond the first steps which are finding out if they're all right, what kind of assistance did Allstate offer to your own employees and how did you arrive at the determination of what that would be?

DEBRECENY

That's a really good question. All together we've contributed about six million dollars to the relief effort. On day one we put in a million dollars from the Allstate Foundation into local efforts and we gave employees the opportunity to contribute to the Red Cross appeal and said we would match that dollar for dollar. Normally in our giving campaign we match 15 cents to 20 cents, but we matched dollar for dollar. Employees gave two million dollars so we matched that to another two million dollars. We have some incidental support through two specific markets that were impacted, which basically took another half million or so. And then we provided an opportunity for Allstate employees at their request to directly support Allstate families. So our own folks gave about a quarter of a million dollars to the 800 families that wanted specific assistance. In addition to that we've provided from money that would help them through their first week or two once they were displaced, and then access to interest-free loans. So there was a variety of assistance. We provided them with the normal sort of counseling system that you would imagine, so our HR folks did a fantastic job in just wheeling in a whole bunch of support systems around them. Then as we tracked people down, we made sure they had money, they had a telephone number to call, they had somebody to look after them. And then as I mentioned Allstater's around the country just were hugely generous in providing financial support from one Allstater to another.

> "We had quite a lot of extensive internal communications…we have a daily, continuously updated internal newspaper on our intranet site…so we were providing a continuous stream of information through that site."
>
> *– Debreceny*

QUESTION FROM A. BUONOCORE

Thanks a lot Peter. Did you have to put any special systems in place to process all these contributions from the Allstate employees and to get those funds out to your folks?

DEBRECENY

We had quite a lot of extensive internal communications. So as all of this went on, internal communication obviously was really important. We have a daily or continuously updated internal newspaper on our intranet site and we sent video crews and audio crews down and our own media folks would do interviews on the ground. So we were providing a continuous stream of information through that site.

What we did for the Allstate employee to Allstate employee campaign was we, with an organization called Kintera who are really skilled at internet-based fundraising for not-for-profit space, they established a separate special website for us overnight so that folks could go on there and donate using credit cards and then we took that money and bought gift cards essentially to Wal-Mart or Exxon or whoever it happened to be for local suppliers and provided the folks on the ground with gift cards. It took us about three days to work out what we wanted to do in response to the requests that we had and to get the approval from the Chairman and implement a system that – once it was up and running – went really well.

CARMICHAEL

Are there any other questions? We'll take one more question and then we'll move to Art. The next question comes from Maureen Collins. Go ahead with your question please.

QUESTION FROM M. COLLINS

My question was again around employees. Just the initial task of locating the 800 employees, I'm curious to know what you did and more specifically did your 800 employees, have a protocol? Did they know what to do when this hit?

DEBRECENY

Yes, they do. The good thing about a hurricane is you can see it coming. So we have systems in place that everybody is aware of before it comes that enables us to get a pretty quick response from folks. So there are special 800 numbers for people to call in and to be able to report on their whereabouts and how well they are. So that's inwards. There are phone tree systems that work down and out, and then we do have, although we didn't need to activate it on this particular occasion, an automated telephone system that will keep trying people until they get them. It takes your pager number, it takes your mobile, your cell phone number, your home number, your work number and it will automatically go through all those numbers and just keep dialing until it actually reaches people. As I mentioned, we learned a lot from 9/11. Basically we learned that we were not prepared for crises and business interruption and so we put a lot of effort into getting the systems right, testing them, and automating them so when something like this happens we've got a system in place that can get to folks and find out how they are and whether we need to provide them with special assistance.

CARMICHAEL
Thank you. Art – let's move now from the perspective of the casualty providers to the energy providers – the utility providers.

ART WIESE
Sure. Energy is the nation's fourth largest utility and we're the second largest nuclear power company – and we've really been through it. Not one, but two devastating hurricanes with huge restoration costs; the forced relocation of our headquarters, which had been in New Orleans; the redeployment of about 1500 employees and 400 contractors who had lived in that area; the collapse of one of our subsidiary's revenue stream and ultimate bankruptcy because of the evacuation of New Orleans; and even rolling blackouts. Hurricane Katrina slammed through about 37,000 square miles of Louisiana and Mississippi where we're the electric utility. To give you some sense of proportion, that's an area about equivalent to the landmass of Great Britain. At the peak some 1.1 million homes and businesses that we serve lost power, more than four times the previous record, and we faced a really Herculean task in restoring power because we had so much damage to our generation, transmission and distribution systems. Our estimated restoration costs for Katrina are between $700 million and $850 million dollars. And the challenge was larger because of some unique circumstances – almost the complete loss of conventional communications in the entire region, gasoline shortages for service vehicles, even looting and violence in the New Orleans area that made it hard for us to get crews back in there fast.

"Hurricane Katrina slammed through about 37,000 square miles of Louisiana and Mississippi where we're the electric utility. To give you some sense of proportion, that's an area about the equivalent to the landmass of Great Britain."
– Wiese

We did mobilize an army of about 10,000 linemen and vegetation workers from utility companies all across the country and by the end of the first week we had electricity restored to about 60% of our customers. By late September almost everyone outside the city of New Orleans was returned to power, but there are roughly 123,000 homes and buildings there that are too badly damaged to receive service. The 1,500 employees and 400 contractors we evacuated from the New Orleans Corporate Center involve an enormous number of dramatic personal stories. One of my communicators was marooned on his rooftop for 5 days; others were only reunited with lost family members after days, sometimes even weeks of uncertainty. We have redeployed all 1,500 of those displaced employees, provided them with up to six months of company paid housing and furnished apartments, rented cars, whatever they needed, and provided them with temporary work sites. And we've shifted the corporate headquarters, at least temporarily, to Clinton, Mississippi, which is a suburb of Jackson, about 180 miles north of New Orleans.

Just as we were getting back on our feet after Katrina and getting most of the lights back on we got a second knockout punch on September 24th. That's when Hurricane Rita roared onshore at another part of our service territory – at Sabine Pass on the Texas/Louisiana border. That again caused enormous damage in southwestern Louisiana and southeastern Texas. This time we had 766,000 customers without power, again we took enormous damage to the generation, transmission and distribution systems, and we even ended up having to have three days of rolling on and off blackouts for our customers living north of Houston in order to avoid a complete breakdown of the electricity system.

We did get all the lights back on in that area in about 10 days, which is pretty phenomenal but it cost another $400 to $550 million dollars in restoration costs. In this sort of double barreled catastrophe the corporate communications department really faced five big challenges. First was to positively highlight – under intense scrutiny from the media from all around the world – the progress we were making. Second, to win the patience of customers who were frustrated after days and some cases weeks of living without electricity in 95 degree heat. Third, we were trying to dramatically illustrate the financial and logistical problems that we had in order to help win some badly needed federal assistance. Fourth, we were trying to reassure Wall Street, especially after the hardest hit of our five utility subsidiaries, Entergy New Orleans, was forced into bankruptcy on September 23. This is a fairly small subsidiary, only 3% of the parent corporation, but it was squeezed between these enormous restoration costs, because everything in New Orleans was essentially knocked out, and almost a 100% loss of its customer base when the city was evacuated. Without Chapter 11 the parent company would not have been able to provide additional funds so the power restoration could go on. Finally, the fifth challenge we faced was how to communicate, and I think this is the most important challenge, how to rally, focus and motivate our employees because so many of them were dispirited or grieving over their personal losses.

> "I think this is the most important challenge, how to rally, focus and motivate our employees because so many of them were dispirited or grieving over their personal losses."
> *– Wiese*

Our initial strategy in communications was sort of preordained by a very detailed 200-page, well-drilled crisis communications plan which emphasizes speed above everything. We had staged the evacuation of key communications personnel roughly 48 hours before the storm hit. We didn't wait for the Mayor or the Governor or anyone else to say "get out." We got people moving beforehand. We had a predetermined and well-equipped emergency command center. Everybody knew where to go. We immediately began providing background information and talk points for company spokespeople from the CEO down so that we were able to maintain one voice with the same key messages throughout this really two-plus-month travail we've been in. We bombarded reporters with information. We never turned down a single interview whether it was to go live on CNN or Fox or just to have a background conversation with a trade journal. We also made a key decision to completely open up the storm restoration process to reporters. We let them inside the emergency center to talk to anybody they wanted to; we let them visit and interview linemen in the tent cities that were created out in the field; we took them on helicopter tours with us of heavily damaged or submerged areas. The first media organization to take us up on the opportunity was *The New York Times* and ultimately we just had virtually everybody in the country doing it.

> "We never turned down a single interview whether it was to go live on CNN or FOX or just to have a background conversation with a trade journal."
> *– Wiese*

I had storm communicators stationed both at the emergency center which was in Jackson, and in New Orleans and in four other cities in Louisiana and Texas between these two storms. We had backup generators and communication systems in place when the conventional landlines and cellphones and computers throughout the Gulf Coast region all crashed. We utilized a complete range of communications tools – TV, radio and print advertising where the media was still in place, daily media updates, frequent press conferences, periodic briefings for Wall Street or government officials or other special audiences like that, Media tours of impacted areas and work camps, and a special storm website.

Internally we used our regular online newsletter, we created a special info line with a recorded phone message for employees, and we sent more than a dozen daily blast emails to every employee every day.

So, how did we do in all of this? Well, I think, if you pardon the pun, we weathered the storm through the quality of our performance – but part of that was obviously communications. We got the right employees to the right locations in the right timeframe before the storms – that was critical. We were able to maintain one voice and keep everybody on message. We only had one request for a correction out of all of the stories that were run and that one was granted. We got a lot of praise from the media. *The New York Times* said we never had performed better, *CNBC* even offered on the air to give us a symbolic award, although I'm not sure exactly what that would have been. We also had some reporters contrast our performance with that of the government. I know *The Arkansas Democrat-Gazette* asked editorially how is it that Entergy has performed so magnificently in this crisis while the government at all levels – federal, state, and local – has done so poorly. We succeeded in reaching our customers with important restoration and safety messages to a degree we never had done before. We got over a million hits on our website in about six weeks, and that's about what we get in a year ordinarily. The special website we set up for employees got really a 19-fold increase in hits. And obviously the stock market didn't punish us, the stock was almost at an all-time high when the first storm hit;

despite all the stuff that's occurred in the ensuing time we've had only about a 10% drop in that, from essentially what was an all-time high.

Well really, all of the success we had from a communications standpoint doesn't mean that we're "out of the woods." More than 2 1/2 months has elapsed since Katrina hit, but the corporation is still camped out in temporary headquarters a long way from home. Only a few hundred of the employees have gone home; those who have intact houses and jobs that they could do by telecommuting. The vast majority are scattered from Clinton to Baton Rouge, Little Rock, Houston, a number of the cities we serve. Our bankrupt New Orleans subsidiary also has never received the kind of federal support that was made available to Con Edison after 9/11 and without it we may soon have to take that company into Chapter 7 or hand the keys over to the flat-broke city of New Orleans to run, which they don't want, and which we don't want either. It could paralyze the economic recovery there. But, obviously our challenges continue, (and) next to nothing has been done to prevent that situation from occurring.

> "We got the right employees to the right locations in the right timeframe before the storms – that was critical. We were able to…maintain one voice and keep everybody on message."
>
> *– Wiese*

CARMICHAEL

Art, you had a firsthand look at the government performance which has come under a lot of criticism, as you said at all levels. Why do you think that happened? If you think about Florida and the previous year in hurricanes, things went pretty well. What was different here?

WIESE

That is sort of an amazing comparison. FEMA got a lot of credit for the four hurricanes it worked on in Florida in 2004. I think you would have to note that 2004 was an election year, and Florida was a critical state and the Governor of Florida is the President of the United States' brother. All of those can't be insignificant considerations. At every level government failed the test in Katrina. I will say in their defense, however, when you drive through New Orleans today and see the level of the devastation, the enormity of what happened there, I'm not sure that anybody could have had an adequate response.

CARMICHAEL

Let's move on to Sam and get the perspective of the petroleum natural gas supplier, and then this will be open to a full QA for everybody.

SAM FALCONA

Thank you. Hurricane Katrina posed a major challenge to our industry both off shore and on shore so it would come as no surprise to anyone that we have comprehensive hurricane plans and business recovery plans, all of which we drill on a yearly basis. These plans enable us, our companies, to assist our employees before and after the storm, and allow us to restore operations in a safe and effective manner after a storm. Without going into a huge laundry list and being respectful of your time, I'll limit my comments to those issues and items which I think would be of interest to us as communicators. I would like to give you a snapshot in time of August 30, 2005, immediately after Katrina.

As a result of that storm 26% of the U.S. oil production and 18% of the U.S. natural gas production was shut in, 11% of our refining capacity was down and 17% of our refineries were on reduced runs. The pipelines that take crude and refined products to the northeast and Midwest were down since there was no electricity to keep the pumping stations going. And Louisiana Offshore Oil port, called LOOP, suspended all operations. LOOP handles 8.5% of all the crude that comes into the United States.

Now let's move forward to November 9, 2005, which is the last data that I have available from our industry association. As of November 9 we still have 13% of U.S. oil shut in. And to give you a perspective from the Gulf, that's really 49% of the Gulf of Mexico. 8% of the natural gas is still shut in and that represents 40% of the daily natural gas production from the Gulf of Mexico. With regards to refineries, 8.8% of the refineries are either shut down or will be restarting soon. Our pipelines are operational and the Louisiana offshore oil port is operating. Now I mentioned some special considerations. If the decision has been made to evacuate, special considerations have to be taken into account for offshore platforms. You cannot wait until the storm is going to hit you; you have to make a determination 36 to 48 hours ahead of time when the weather is still good and you can conduct helicopter operations. You can't wait until the weather and the winds get out of hand. The second thing is there's only a limited number of helicopters that all of us in the industry share. So half the time or more than half the time when we evacuate platforms it's a bright sunny day and nothing happens, but you can't take the chance. And the figure that I heard bantered about after Rita went through there was about 100 rigs in the gulf that were loose and floating. If you can imagine that is out of approximately 4000 rigs. As for our onshore facilities, we learned that when you evacuate onshore facilities, especially for those 200 year storms, you have to take traffic into consideration. As you saw on television, when you try to evacuate millions of people from the Texas Gulf Coast, it is a nightmare.

> "As far as communications lessons learned…make sure you understand your business continuation plan and your business recovery plan."
>
> *– Wiese*

As far as communications lessons learned, the question that I would ask if I was sitting in your chair is make sure you understand your business continuation plan and your business recovery plan. More importantly, make sure that you understand and you've actually reviewed and perhaps drilled your own recovery plan for your own department. In Houston where our corporate headquarters is located, we faced taking a hit from a category 5 hurricane. We found out on Wednesday morning, although it was not official until 2 o'clock on Wednesday afternoon, that we were going to close the complex the following day. In fact, we started letting people go around 2 o'clock. As everyone else was leaving, we looked around our offices knowing we were going to have to decide what take with us. What files do you take, what do you leave in your office? We had to box things in our office, move computers to central locations and put them away – as we were afraid that in a category 5, you're going to get a lot of windows broken and a lot of water damage. So that was one of the things that we had not anticipated in our planning process.

> "We also felt it was important that wherever we went, wherever we set up shop, we should be able to conduct news media operations."
>
> *– Wiese*

And so we asked ourselves early Wednesday morning what some of the functions were that we needed as we moved our department north to Oklahoma. And we determined that the ability to post to the web, both the internet and intranet, from any location was critical for our communications function. We also felt it was very important that wherever we went, wherever we set up shop, we should be able to conduct news media operations. And most importantly, we needed to communicate with our employees, especially those impacted by hurricanes. Originally, we thought that documentation in the form of a photo and video was going to be necessary, but by the time all is said and done we just pulled it from our list as we felt is was not a high priority item.

With regards to media relations, one of the things that we did do is we established an alternate news media line and an 800 number that was routed through Bartlesville, Oklahoma. To ensure that the media had gotten this number, we sent out a media alert to everybody saying we've got our regular media line and we have an alternate for the storms. We also put recorded updates on the media line and referred reporters to our website. We also called back all the news media whenever we posted a new update on the web. Subsequently, we sent them an e-mail alerting them to the web update. We had an email distribution list so anytime any new information was posted to the web, the news media received an email alert. One of the things that our IT department did right away, which is pretty smart, is that they transferred our servers for our emails and our Blackberry's outside of the Houston Gulf Coast area. For about a half hour we had no email, but essentially they moved all our information and our ability to communicate on Blackberry and email to our servers in Oklahoma. The same was done for two refineries and one of our terminal facilities in the Gulf Coast area.

One of the things that we also found out was that Blackberry's and text capable cell phones are very much a critical link and believe it or not, even when the devices were low on batteries they could still communicate by text messaging. What we didn't realize is a lot of people did not have car chargers for their cell phones and that was one of the things that we said we've got to fix for the next time. From a business perspective, we needed to communicate with our employees, especially in the field. The refinery that was evacuated, which was south of New Orleans, had about 400 employees and 400 contractors. Fortunately for them, they had evacuation instructions on the back of their employee badges. This information included an 800 number, a number that was not tied to the local area. You need to ensure that if you have 800 numbers, they can be routed automatically nationwide. Some companies did have 800 numbers that were unfortunately tied to the New Orleans area so when New Orleans lost power, their 800 numbers did not work.

The other thing that was very helpful for us from a business standpoint was satellite phones. We did realize, however, that we did not have enough of them. We had them in the refineries, we had them in our major areas. In fact, this turned out to be one of the saving graces for one of the parishes when we evacuated – we actually gave the Chief of Police and the Fire Chief our satellite phones because they had no way of communicating and that was one of the first ways that we got information from the area.

> "One of the things that our IT department did right away…they transferred our servers for our emails and our Blackberry's outside of the Houston Gulf Coast area."
>
> *– Falcona*

We also posted updates for our employees through our 800 number, which was manned in Houston for Katrina. We used this channel to gather information on employees who called in – where they were, how they could be located, etc. We did the same for Rita because that was one of the key issues that all companies faced – trying to find employees. Prior to evacuating, we also created Excel spreadsheets for each of the departments, including mine, where we provided contact information (where we were going to evacuate, alternate telephone numbers, where we would go if we could not make it to our destination, etc.).

Finally, strategically deploy your resources, but when you do this, maintain control. With about four hours notice to evacuate, everyone felt rushed and started heading off into different directions. We quickly made assignments – sending people to Oklahoma, to Dallas, to San Antonio. And finally, remember to take care of your employees. The Katrina employees, the ones down in the refinery, received a $5000 deposit in their checking account to take care of all the incidentals because half of those employees were homeless and were in hotels. We also provided interest free loans for some of those individuals. We started an employee fund where employees could earmark contributions specifically for those fellow employees who were impacted by the disaster and the company would match a specific amount. I'll take questions.

CARMICHAEL

Let's open it up for questions to Sam and then as they queue up for any of the speakers. Our first question comes from Ward White. Go ahead with your question please.

QUESTION FROM W. WHITE

This is a question for Sam, but the other two may have viewpoints. The city of Houston seems to have been extraordinarily responsive and generous to the hurricane victims. Is this portrayal accurate? And secondly if it is, will this ultimately set the city back in terms of the economic output that it's had to devote to this?

FALCONA

That's an interesting question. It is accurately portrayed. The city did open their arms, and not only the city, but just about every church, organization and school. Personally, the schools that my two kids attend picked up about 40 kids and 30 kids, respectively, from the New Orleans area. We accumulated uniforms and extra books, but that happened all over the city.

As far as the money spent by the city, until about a week ago they were going to be reimbursed for everything, but what we're hearing in the news media locally is that they're only going to be reimbursed for 75% of their cost. And I can tell you that United Way and all the social agencies have picked up a lot of people in their net. And even those agencies that are not United Way, such as Covenant House, actually took in kids from Covenant House in New Orleans which had to be evacuated. Subsequently, Covenant House Houston assimilated those kids into their organization and then they had to evacuate because of Rita. There's a lot of these service agencies, social service agencies in Houston that probably have a 30% increase in their operating expenses because the evacuees, and some of them are still here, and some of them have said they like it here and they're going to stay here.

QUESTION FROM A. MASSA

Sam – question for you. Could you speak a little bit about the special arrangements that you made in terms of keeping your chief executives in the loop throughout this whole process? I know you talked about the employees, but what in particular did you have to do in terms of the CEO on down?

FALCONA

Well nothing that we didn't do routinely. We're fortunate that our executives are very comfortable with email, so we sent email updates quite regularly. And if we had an issue, it didn't take long for either the HR person or one of the business managers to go directly to one of the EVPs or the CEO to get a ruling. Email was probably our number one method for communicating with executives.

WIESE

In our case at Entergy our storm plan required that the 10 or so most senior executives in the company were divided between three different locations. They met by conference call and of course email back and forth all the time.

> "Email was probably our number one method for communicating with executives."
> – *Falcona*

CARMICHAEL

We have another question from Ward White. Go ahead please.

QUESTION FROM W. WHITE

This is a follow up and Art, you kind of addressed it, but would each of you respond. You've talked mostly about your function on-down and how the corporation worked in these circumstances. Would you talk about your position on-up and the counsel to senior management. What was your role and what would you do differently or what worked well?

WIESE

Initially we had difficulty because people were in different cities and we found that most of the executives only carried cell phones and Blackberries that had 504 numbers – in other words, they were all tied into the New Orleans communication system. Our 800 numbers mercifully were, just as Sam said, out of region numbers by design, but most people's personal communications operations or equipment were knocked completely flat. So that took a while to get used to but we probably had more direct involvement as a department with the CEO during these last three months than at any time in the six years I've been there – by which I mean extended conversations on a daily basis. I've been involved in every meeting of any consequence to the company's future from the very beginning. We had complete access.

DEBRECENY

As I mentioned, in a sense we're blessed or cursed by having things like this happen all the time so we had pretty well established procedures that we implemented. I kept senior management, Ed Liddy for example, up-to-speed with what was happening from a communications perspective and from our crisis team which began to meet every morning. Usually that was done by email or actually voicemail. We would send email summaries to the whole of the senior management team at the end of every day and we had a website that we update every day which gives complete data across the whole of the business. Then individual business leaders, for example the head of claims, would be updated by his team every day. So we didn't need to put additional communications activities in for the CEO, but then we weren't impacted on a day-to-day basis in the way that either Art or Sam were because we didn't have nearly so many facilities on the ground. So our normal systems basically worked fine.

FALCONA

From a media relations standpoint we did nothing differently. We're used to handling crisis and things like this and we have a standard protocol – we know what we can say and what we should say. We did have an emergency operation center staffed by the downstream refining people and they were the ones that provided all the updates and information. I was there and my team was there, and that's how information flowed with regards to the operations. Where we did have to get involvement and quick turn around usually involved HR issues. And really for the first five or six days our focus was finding our employees. Where are they? Are they safe? Our facilities were non-accessible, especially the Alliance refinery, which is south of New Orleans. We kept a running count – how many do we need to find, we're down to 13, we're down to seven, we're down to two. There's all kinds of methods that you can use to track people down. But the HR issues – what are we going to do for them, how are we going to take care of them, what about their homes, what about this fund, how do we establish it – I was involved in all of the issues.

CARMICHAEL

Let me build on the question that Ward posed in terms of your counsel to the executive management team, CEO, et al. Did you have any tough calls? In a crisis you're making decisions in an imperfect information environment and sometimes difficult ones. Did you see any tough calls that had to be made as part of your counsel to executives and what did you learn from that?

WIESE

In our case one of the more difficult calls was the decision which I had recommended early on to open up the process to let reporters come to the emergency headquarters and basically see everything, talk to anybody. There was a lot of skepticism about that, not the least bit because there were a lot of candid conversations going on about the inadequacy of the federal response and the "quality of leadership" on behalf of the Governor of Louisiana. And there was a lot of skittishness that opening it up like that would basically preclude people being candid. But in the end it paid off. It was a significant risk but it paid huge dividends because the transparency really impressed reporters with what we were accomplishing and what we were up against.

> "We would send email summaries to the whole of the senior management team at the end of every day and we had a Web site that we update every day which gives complete data across the whole of the business."
>
> *– Debreceny*

CARMICHAEL

So the concern on the candid comments did not end up being a real factor?

WIESE

Well, it was a factor but I think the CEO made the right call that there's some risk inherent in doing this but there's also some bigger risk in reporters not feeling they know what's going on.

DEBRECENY

We had lots of tough calls coming at us. As I mentioned, our communication challenges have got more severe as the time has gone on since Katrina and Rita came ashore. And from a business perspective, we need to find a way and the country needs to find a way to better prepare and protect ourselves as a company, but also the nation, for future catastrophes. We know they're going to come – there are going to be more earthquakes and more hurricanes – we just don't know where they're going to be and when exactly they're going to happen. And everybody's involved – the individual families, companies, states and the federal government. But we all to an extent, particularly the government, tend to become involved after an event. We think we need to find a way of getting together and working out a better way to do it before the event. Right now we're in the middle of working out how to solve our catastrophe exposure problem and we're going to have to make some tough decisions which are going to be difficult to make and difficult to implement vis-à-vis our customers, but we're going to try to do it in a way in which we get everybody together in a dialogue to get a better system going forward.

FALCONA

From my industry I don't think there were tough calls on our part and certainly not one by me. Evacuating the complex was not a hard call because basically the Mayor had requested that the company shut down and evacuate.

With regards to getting information out, we had to be careful because our comments impact the market. We seldom allow interviews. However, the news media just showed up as we were trying to establish a safety net around our refineries. But we were very guarded as to how long we were going to be down and what was really the extent of our damage. But I think all of us in this industry had to do that.

CARMICHAEL

Thank you. Let's open it up again. We have a question from Don Wright. Go ahead with your question please.

QUESTION FROM D. WRIGHT

I was just going to first of all thank the three participants, this has been absolutely terrific. But if any of you could change one thing for the next disaster, other than the disaster not coming, what would that be?

WIESE

From my perspective it would be for the government to begin considering pre-positioning more equipment and more supplies around the country. By many yardsticks what happened in New Orleans is the equivalent of a terrorist attack and I think there's a lot to be learned about how to deal with terrorist events from looking at what happened to New Orleans. After all, you have an entire city, a major American city for the first time essentially emptied out. So I think obviously one of the lessons of this is to have more in place before a storm occurs.

DEBRECENY

I think another issue is the reliability of the telephone systems is a major issue. As the folks who were in the area mentioned, their own systems went down, but we started to lose phone system and therefore computer system really quickly. We were able to get to work around using other telephone companies but it became pretty apparent that our infrastructure is not generally speaking as a nation, is not equipped to deal with these sorts of catastrophes. Bell South lost a huge amount of its infrastructure on the ground and people just weren't able to get through. Even when they started to get service back they couldn't get through to many 800 numbers, the system gets overloaded really quickly. Mobile towers go down when a hurricane comes through, so our communication systems are not well geared for out-of-the-ordinary events so I'd definitely change that.

FALCONA

From my industry perspective I would have sent a few of my staff out earlier. There were a number of us, myself included, that got stuck in those traffic jams and had to get turned around. By luck we sent two people the day before just on a hunch and they were the ones who basically ran the operation until we could get people up there.

> "…it became pretty apparent that our infrastructure is not, generally speaking as a nation, is not equipped to deal with these sorts of catastrophes."
>
> *– Debreceny*

CARMICHAEL

Are there any other questions? We do have one more question from Angela Buonocore, go ahead please.

QUESTION FROM A. BUONOCORE

My question was all of you alluded to or directly commented on the fact that you have a detailed crisis communication plan. In the aftermath of this event, was there anything that you found that was missing in your plan that you would then go back and add in as a result of your experience in this event?

WIESE

Oh, certainly. I think there are lessons learned from every crisis. I mentioned the fact that most of our personal communications, you know Blackberries and cell phones, had New Orleans area codes on them and certainly we won't have that happen again. There are a number of things we learn from every storm and we try to do a pretty elaborate lessons-learned study after each one to improve the performance next time.

QUESTION FROM A. BUONOCORE

Peter, I think you said you had a 200 page crises manual – was there anything from these experiences that would have caused you to make a revision or addendum to that plan?

DEBRECENY

No, not particularly. I think it's been a good test for us to make sure that everything is robust. What was most difficult was keeping track of changes of telephone numbers. We try to keep every employee telephone number so we can reach them wherever they are. And we've got to try to keep our phone trees up to date – that's a huge logistical challenge as people move around, move from one manager to another, change numbers, change addresses. But its really important to be able to do when you need to get somebody in a hurry, whether that's somebody on the frontline or somebody back here in the home office. We're trying to find a way to automate that better so that we aren't continually trying to play catch up.

CARMICHAEL

Well, and it's also 4 o'clock. So let me conclude by first of all thanking Peter, Art and Sam for their time and their insights and their preparation in the middle of – as we all know – a crisis that isn't done. And thanks to great questions coming from the field. With that, I will call the teleconference over.

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