THE SITUATION: CONFIDENCE IN BUSINESS IN TAILSPIN
Every Week, A New “Enron”
UNDERSTANDING THE IMPACT: POLL RESULTS
Methodology

- Research among 850 Opinion Leaders
  - 400 U.S. Opinion Leaders
  - 450 European Opinion Leaders across the U.K, France and Germany
- Opinion Leaders are respondents:
  - Aged 35-64
  - Household income $100K+ in US, $75K+ in Europe
  - College educated
  - Business and Media Attentive
- Interview averaged 20 minutes in duration
- Research conducted June 10-24, 2002
Executive Summary

- Favorability and trust have hit plateau...but it is a low plateau
  - European audience more cynical than US, but US audience is catching up

- Problems are perceived to be pervasive, businesses ability to monitor and fix are doubted
  - Elites assume shady behavior behind board doors
  - C-Suite (high level, board?) transparency is needed...above and beyond

- American business and brands are burdened by policy issues (European perception under influence)
MEASURING ATTITUDES: THE BIG PICTURE
Business (in general) retains some equity in hostile environment....
In the face of the storm, US opinion leaders have not yet lost favorability/trust toward business.

Perception of “business” is sound...but the system is flawed.
However, we are seeing a post 9/11 ebbing of favorability/trust toward government.
Please tell me your opinion of each of the following using a 5-point scale where one means you have a “Very Unfavorable Opinion of Them” and five means you have a “Very Favorable Opinion of Them”. [Top 2 boxes shown]
US Favorability (Tracked)

Please tell me your opinion of each of the following using a 5-point scale where one means you have a “Very Unfavorable Opinion of Them” and five means you have a “Very Favorable Opinion of Them”. [Top 2 boxes shown]
European Favorability (Tracked)

*Please tell me your opinion of each of the following using a 5-point scale where one means you have a "Very Unfavorable Opinion of Them" and five means you have a "Very Favorable Opinion of Them". [Top 2 boxes shown]*
Now I would like you to tell me how much you TRUST each to do what is right. Please use a 9-point scale where one means that you “DO NOT TRUST THEM AT ALL” and nine means that you “TRUST THEM A GREAT DEAL”. [TOP FOUR BOXES SHOWN]
US Trust in Institutions (Tracked)

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Specific services, however, have taken hit....

Accountability for Accountants

Enron, Tyco, Adelphia, Global Crossing: These days, business news can resemble a financial police blotter. The erosion of credibility of many corporations continues, as the Enron affair has unleashed a rash of allegations of dubious accounting practices, and of market insiders corrupted by conflicts of interest. These revelations of trouble at individual companies will continue to rattle the entire stock market so long as Congress and regulators refuse to shore up safeguards against corporate chicanery.

Yesterday Dennis Kozlowski, the beleaguered chief executive of Tyco International, the industrial conglomerate that has been the subject of numerous inquiries into its business practices, resigned in disgrace. Microsoft agreed to alter some of its accounting practices that the Securities and Exchange Commission claimed had been used to massage its profit reports. The software giant's behavior had more to do with its manipulation of the timing of reporting revenues than with any outright fraud.

Most companies, to be sure, remain honest, but it is hard for investors to be confident of this in an environment made all the more uncertain by the realization that the system's financial cops have not been on the beat. This point has been driven home by the ongoing trial of Arthur Andersen for its involvement in the Enron demise and other allegations of improper behavior by auditors and supposedly independent boards of directors.

That is why Congress must act aggressively to restore the integrity of the market. On the key issue of bolstering auditors' independence, a weak reform bill passed in April by the House of Representatives is the legislative equivalent of prescribing an aspirin for a brain tumor.

By contrast, a Senate bill written by Paul Sarbanes, a Maryland Democrat, would restrict accounting firms' ability to provide consulting services to clients whose books they audit, and would create a powerful and independent oversight body capable of setting and enforcing rules for the profession. The bill, endorsed by Paul Volcker, the former Federal Reserve Board chairman who tried to rescue Arthur Andersen earlier this year, would also require the rotation of a company's main auditor every five years and would curb individual accountants' ability to get hired away by clients they are auditing.

Senator Sarbanes has been unable to get this sensible proposal voted out of the Senate Banking Committee he heads, but will try again this week. Senators from both parties should support his effort if they are serious about wanting to restore public confidence in financial markets.
Trust in consulting/advisory services in almost negligible (especially in Europe)...lower than business in general
Now I would like to focus on your trust in industries that provide advisory services to businesses. Please tell me how much you TRUST businesses in each of the following industries to do what is right. Please use a 9-point scale where one means that you “DO NOT TRUST THEM AT ALL” and nine means that you “TRUST THEM A GREAT DEAL”. [TOP FOUR BOXES SHOWN]
Low market confidence....
Confidence in Financial Markets

How much confidence would you say you have in the financial markets? Would you say that you are extremely confident, very confident, somewhat confident, or not at all confident?
Corporate responsibility is an internal issue (ethics)...Corporate philanthropy is an external issue (global)
Defining Corporate Responsibility

People define corporate social responsibility many different ways. In your opinion, would you say that corporate social responsibility is more about a company’s philanthropic efforts, that is, donating money and resources to the community and charitable organizations or more about the ethics that occur within a company, that is, everything from the way a company treats its employees to their policies on social issues such as the environment?
Philanthropic Distribution

Thinking about (COUNTRY) based companies, do you think.... their corporate giving and philanthropy should be focused mostly in (COUNTRY) or their corporate giving and philanthropy should be spread out to the countries and markets where they operate and sell their products?

Stay in Country
- U.S.: 38%
- Europe: 19%

Spread across operating markets
- U.S.: 37%
- Europe: 43%

Both
- U.S.: 6%
- Europe: 5%

Neither
- U.S.: 13%
- Europe: 32%
Many sources, but few viewed as credible...
## Sources of Information: Credibility Ratings

*In general, how credible do you feel each of the following sources is for information about a company? Is information about a company that you get from (INSERT SOURCE) extremely credible, very credible, somewhat credible, or not credible at all?*

### Percentage saying source is “Extremely” or “Very Credible”

<table>
<thead>
<tr>
<th>Source</th>
<th>Europe</th>
<th>US</th>
</tr>
</thead>
<tbody>
<tr>
<td>Articles in business magazines</td>
<td>43%</td>
<td>56%</td>
</tr>
<tr>
<td>Friends and family</td>
<td>34%</td>
<td>55%</td>
</tr>
<tr>
<td>Stock/industry analyst reports</td>
<td>37%</td>
<td>48%</td>
</tr>
<tr>
<td>Articles in newspapers/newsweeklies</td>
<td>33%</td>
<td>47%</td>
</tr>
<tr>
<td>TV news coverage</td>
<td>31%</td>
<td>46%</td>
</tr>
<tr>
<td>Radio news coverage</td>
<td>34%</td>
<td>38%</td>
</tr>
<tr>
<td>Third party (NGO/Shareholder activist) communications</td>
<td>22%</td>
<td>36%</td>
</tr>
<tr>
<td>Press releases/Annual reports</td>
<td>25%</td>
<td>35%</td>
</tr>
<tr>
<td>Internet in general</td>
<td>18%</td>
<td>30%</td>
</tr>
<tr>
<td>Company website</td>
<td>14%</td>
<td>26%</td>
</tr>
<tr>
<td>Corporate/product advertising</td>
<td>8%</td>
<td>20%</td>
</tr>
<tr>
<td>Internet chat rooms/discussion groups</td>
<td>8%</td>
<td>16%</td>
</tr>
</tbody>
</table>

*Rank order by US data*
CORPORATE GOVERNANCE
Ethical issues epidemic...
Perceived Problems in Corporate Behavior (US Data)

- Misleading financial reporting: 73%
- Integrity and behavior of Senior Executives: 72%
- Deceptive marketing practices: 71%
- Unethical business practices by accounting firms: 70%
- Misleading communications regarding business performance: 70%
- Integrity and behavior of CEOs: 70%
- Inappropriate executive compensation plans: 69%
- Conflicts of interest among financial and stock analysts: 68%
- Inadequate accounting standards and principles: 67%
- Behavior of the Board of Directors: 65%
- Insufficient attention to social consequences: 63%
- Biased media coverage: 61%
- Inadequate government regulation: 52%

Percentage saying problem is “Extremely” or “Very Serious”
Perceived Problems in Corporate Behavior (Europe Data)

- Biased media coverage: 48%
- Inadequate government regulation: 53%
- Deceptive marketing practices: 54%
- Integrity and behavior of CEOs: 64%
- Behavior of the Board of Directors: 65%
- Inadequate accounting standards and principles: 65%
- Inappropriate executive compensation plans: 65%
- Integrity and behavior of Senior Executives: 66%
- Insufficient attention to social consequences: 67%
- Misleading financial reporting: 72%
- Unethical business practices by accounting firms: 72%
- Misleading communications regarding business performance: 70%

Percentage saying problem is “Extremely” or “Very Serious”
Perceived Problems in Corporate Behavior (Global Gaps)

Percentage saying problem is “Extremely” or “Very Serious”

- Integrity and behavior of CEOs: 70% (64%)
- Integrity and behavior of Senior Executives: 72% (66%)
- Deceptive marketing practices: 71% (54%)
- Biased media coverage: 61% (48%)
Confidence in Business to Solve Problems

- Inappropriate executive compensation plans
- Misleading communications regarding business performance
- Unethical business practices by accounting firms
- Integrity and behavior of CEOs
- Misleading financial reporting
- Behavior of the Board of Directors
- Biased media coverage
- Insufficient attention to social consequences
- Integrity and behavior of Senior Executives
- Deceptive marketing practices
- Conflicts of interest among financial and stock analysts

Rank order by US data

Percentage saying they are “Extremely” or “Very Confident” in business’ ability to police themselves

- Confident in business’ ability to police themselves

0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%

Europe

US

Shareholders have suffered billions in losses while CEOs have walked away with extraordinary wealth.

We must not delay a massive restructuring of the regulatory regime that governs our capital markets.
Importance of Corporate Operating Practices

- Report changes in accounting rules and practices before required: 76% in US, 69% in Europe
- Publish the company's compensation policy, such as stock options, etc.: 75% in US, 67% in Europe
- Hold CEO & Sr. Management to same standard of disclosure and transparency as elected officials: 74% in US, 74% in Europe
- CEO publish & enforce new standard of corporate ethics: 73% in US, 65% in Europe
- Provide independent advice to employees about their investments (including company 401K): 73% in US, 58% in Europe
- [US ONLY] Accelerate SEC disclosures of all insider trades and issue a press release to within ten business days: 72% in US

Percentage saying practice is “Extremely” or “Very Important”
Importance of Corporate Operating Practices

- Disclose the nature & relationship of board members to CEO: 71%
- Report divisional/sector business results (not just consolidated results) on a quarterly basis: 71%
- Fully disclose potential business risks on a quarterly basis: 64%
- Provide details about sr. management and board members outside affiliations, memberships and investments: 67%
- CEO provide a public point-of-view on emerging issues and potential business impact: 60%
- Publicly report customer satisfaction data: 56%

Percentage saying practice is “Extremely” or “Very Important”
Importance of Corporate Operating Practices

Percentage saying practice is “Extremely” or “Very Important”

- Publish the company’s charitable contributions on an annual basis: 61% (Europe), 48% (US)
- Publish the company’s diversity record on an annual basis: 60% (Europe), 60% (US)
- Invite the public to semi-annual question and answer forums: 59% (Europe), 44% (US)
- Factor in public pressure when deciding what products to sell: 57% (Europe), 55% (US)
Off the Perch...

While the era of the celebrity CEO is over, corporate leadership can not afford to hide.
Need to use multiple communication channels to reinforce messages....
The government needs to be more involved in oversight and regulation of private enterprise in this country.

The media should play the role of corporate watchdog in addition to disseminating general newsworthy information.

I am skeptical about the truthfulness of communications issued by companies regarding their business and financial performance.

The recent revelations regarding Enron and others are not isolated incidents, they are a sign of broader problems with business beyond financial reporting controls, including corporate.

I usually don’t believe something the first time I see, read or hear it; I am more likely to believe something I see, read or hear from many different sources.

In light of recent events, it is more important than ever for CEOs to take the lead role in communicating with a company’s stakeholders, including the general public.

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The government needs to be more involved in oversight and regulation of private enterprise in this country.

Percentage saying they “Agree” or “Strongly Agree”
PERCEPTIONS OF AMERICAN INSTITUTIONS IN EUROPE
9/11 Impact on Perception of American Business in Europe

Since the events of September 11th, 2001, I tend to look upon American business interests in (COUNTRY) more favorably.
European Support for US Policy on Middle East

*In general, I support U.S. President Bush’s policy on the Middle East, specifically as it relates to the Israeli-Palestinian conflict*

*President Bush’s policies regarding trade, including recent tariffs imposed on steel exports to the United States have had a negative impact on my general perceptions of American businesses.*
In general, do US President Bush’s foreign policy and trade policy actions make you feel more or less favorable toward US brands?