

How to handle a corporate scandal

By Donna Jacobs

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Chief executives have a clear choice when things go bad, says a top PR guru: Simply come clean.

Kathy Bloomgarden is CEO of New York-based Ruder Finn, one of the world's largest family-owned PR firms. She has worked with CEOs and senior executives at companies with serious ethics and/or financial problems, including Tyco, Novartis, BP, the New York Times Co. and Sun Microsystems.

Her advice: Tell the truth, be frugal, listen to your customers and your staff and serve the greater good.

And profit from it.

She has written about corporate crimes, misdemeanours and stupidity in a new book *Trust: The Secret Weapon of Effective Business Leaders*. Published by St. Martin's Press (\$29.95), it's available in Canada on-line from www.amazon.ca and www.chapters.indigo.ca.

If there were any doubt that CEOs who solely chase profits (or who lie about them) have given big business its bad name, she ends the argument with a few statistics.

In a 2005 Roper poll in the U.S., people gave only a two-per-cent "very trustworthy" rating to CEOs of large companies. The year before, a different survey showed only 20 per cent of respondents strongly trusted business executives.

"Only lawyers and car salesmen ranked lower," she writes in *Trust*.

Strive as they might to get to the top, 40 per cent of CEOs worldwide will lose their jobs within 18 months, usually over a loss of trust, says Ms. Bloomgarden.

With the Enron and WorldCom lies -- euphemistically termed earnings "restatements" -- the public got a look inside large corporations and didn't like the view. (One might add Canada's Nortel Networks.)

Last December, says Ms. Bloomgarden, U.S. voters ranked their politicians beneath business executives for honesty and ethics. During the U.S. mid-term elections in November, they chose corruption and ethics as their key issues "ahead of terrorism, Iraq and the economy."

When Canadians elected Prime Minister Stephen Harper on his ethics platform, she says, "they demonstrated their demand for openness and trust. His efforts for the Federal Accountability Act highlight the importance of gaining the trust of all stakeholders.

"This underscores the importance of trust, not just for CEOs, but for leaders in all walks of life. I have realized that the characteristics shared by successful CEOs can be applied by any leader, whether a politician, a non-profit executive, a division president or even someone at the beginning of a career."

Bob Hormats, vice-chairman international of Goldman Sachs & Co., said Ms. Bloomgarden had "captured the essence of critical business and human relationships -- trust based on ethical leadership." She had illustrated "the enormous benefits for an organization of building trust and the devastating impact of destroying it."

Among Ms. Bloomgarden's lively tales of transgression that took down companies -- and their innocent employees and shareholders -- are inspiring success stories. From them, she derives suggestions to reverse public relations disasters and business failures. She gives extra value by adding comments from interviews with leading CEOs.

"Successful CEOs don't hide when something goes wrong," she says. They don't shift blame or craft responses to lessen embarrassment or listen only to their lawyers. "The embarrassment will come, after all the sordid details are dragged out, as they inevitably will be. Why not choose the time and manner of disclosure yourself?"

To illustrate the wrong way and the right way to lead, she tells the story of two giant drug companies, Schering-Plough and Novartis.

Schering-Plough: Wrong way

Richard Jay Kogan, who worked at Schering-Plough for 16 years before being named chairman and CEO in 1998, ignored bad news. The patent on the lucrative allergy drug Claritin was running out. The company faced competition for the hepatitis drug market.

Still, Kogan announced that the company was "performing well" and predicted about a 20-per-cent rise in earnings per share. The next year, as calls became louder for a merger to strengthen the company, he predicted "strong growth prospects" and failed to reveal an FDA investigation of possible safety violations in some of its plants. And 2001, he said, would be "a watershed year."

As troubles compounded, Kogan hid in his office. Finally, in 2002, he admitted the dire outlook, but only to selected analysts. The SEC charged him for withholding release of critical information to all investors. He paid \$50,000 in penalties (with no admission of guilt), stepped down and left the company to pay a \$1-million fine.

Schering-Plough: TurnAround.

By the time Fred Hassan was named chairman and CEO in 2003, the company's market value had plummeted by two-thirds. "The company was in much worse shape than I expected," he told Ms. Bloomgarden.

To regain trust, he started with his own employees. He held the first of many candid town hall meetings on Day 3 of his new job. He outlined his recovery program. He promised to tell the truth.

He closed the executives' dining room so they would eat with employees, sold the company jet, ended most bonuses, issued a pessimistic earnings report, cut dividends, launched cost-cutting measures and boosted the research and development budget.

He widened decision-making by "striving to eliminate the conventional separation between thinkers from the doers." With hundreds of employees striving for the same results, the company saved thousands of dollars in FDA missed-deadline fines. He asked employees for honest feedback on what worked and what didn't. (With the turnaround complete, these days the company is in acquisition mode.)

Novartis: Right way.

Dr. Daniel Vasella, CEO of drug giant Novartis, admitted: "The pharmaceutical industry has a bad image in part because of our own behaviour. Price increases, aggressively protecting patents when the patent life has expired, and access to medicines in developing countries, principally related to AIDS, I think they were three areas where we should have been better inspired."

Ms. Bloomgarden says that between 2000 and 2005, though, drug companies had donated about \$2.4 billion and more than 540 million treatments.

A decade ago, as newly named CEO, Dr. Vasella laid out his plan to shake up Novartis (the result of the merger of Ciba-Geigy with Sandoz.) He sought a company dedicated to innovative products "to cure diseases, to ease suffering and to enhance the quality of life."

He personally spent time in India visiting leprosy patients, and in Vietnam seeing children with infections that fester due to lack of antibiotics and children dying from malaria and cancer.

He told Ms. Bloomgarden the story of how drug trials of the leukemia drug Gleevec were so successful in treating patients that Novartis felt compelled to get it to market fast. The company knew that cynics might suspect a rush to profits. Given relatively few patients who would benefit, she says, the company took considerable risk.

Ultimately, Novartis sped the drug to store shelves in two years -- thanks to hundreds of employees who worked nights, weekends and holidays. Doubly motivated by correspondence with leukemia patients, employees suggested ways to speed the process.

In 2005, the company made Fortune magazine's list of the world's most admired companies, says Ms. Bloomgarden. And profits rose 16 per cent that year alone.