# LEVICK Weekly **FEBRUARY 15, 2013**

## S&P'S ORDEAL

IS THERE LIFE AFTER **ERIC HOLDER?** 



**COVER IMAGE:** Standard & Poor's (S&P) is an American financial services company. It is a division of The McGraw-Hill Companies that publishes financial research and analysis on stocks and bonds. S&P is known for its stock market indices such as the U.S.-based S&P 500, the Australian S&P/ASX 200, the Canadian S&P/TSX, the Italian S&P/MIB and India's S&P CNX Nifty. The company is one of the Big Three credit-rating agencies, which also include Moody's Investor Service and Fitch Ratings. Its head office is located on 55 Water Street in Lower Manhattan, New York City.

## 03 Contents

S&P'S ORDEAL
Is There Life After Eric Holder?

THE PR PROBLEM the Pentagon & VA Share

12 CHANGE.ORG
A Powerful Adversary for Brands

15 BLOGS
Worth Following

16 LEVICK In the New



### Is There Life After Eric Holder?

Richard S. Levick

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was the first thing that occurred to just about everyone when news broke on Monday that the Justice Department, joined by attorneys general from 16 states and the District of Columbia, was suing Standard & Poor's

and its parent, the McGraw-Hill Companies, for intentionally propping up the ratings of shaky mortgage instruments. S&P's alleged motive was to not discourage new business. The purported impact was to set up investors (and the rest of us) for the financial crash.

Even before we read the stories, the headlines alone cued suppositions that the government was punishing S&P for the 2011 downgrade that roiled the markets. The government's investigation may have begun years before President Obama was reelected but elections do have consequences, as they say. A Romney victory might have possibly nipped this action in the bud or



settled it less painfully. By contrast, the current S&P probe is being described as "the Justice Department's most aggressive move yet to try to hold accountable companies that were at the center of the financial meltdown."

The government is seeking \$5 billion—S&P's total revenue was \$1.77 billion in 2011—to cover losses by investors, including state pension funds and federally insured banks and credit unions. According to one report, a source confirmed that Moody's was originally included in the investigation but the government moved off that target when the S&P downgrade occurred.

Attorney General Eric Holder has denied any tit for tat but the fact that Floyd Abrams, S&P's lawyer and the dean of First Amendment practice, is on record, saying the investigation intensified after the downgrade, does lend credibility to the theory. There aren't many lawyers more respected than Abrams, who continued to publicly speak for S&P even after publicly acknowledging that there is no First Amendment issue here, since his client is accused of fraudulent communications rather than simply having a wrong opinion. S&P will be wise in any event to keep Abrams in the public foreground as this legal treadmill continues to spin.

Direct motives notwithstanding, the Obama Administration surely knew that the payback perception was inevitable. It went forward anyway, undeterred or possibly welcoming this perception of itself as avenging angel. At

04



the same time, the case may have opened a Pandora's Box if the DOJ must now go after Moody's and Fitch Ratings simply because S&P's suspect ratings were not fundamentally at variance with anyone else's.

Yet the most nagging question with possibly the biggest long-term impact: What can S&P possibly do now to ensure it even survives, never mind capturing sufficient market share to compete in the years ahead? It's a measure of how dire the situation is that observers are already questioning McGraw-Hill's survival chances, at least in its present form.

The government has a tough road ahead because it must prove that S&P knew its opinions were falsified. Yet that's cold comfort for S&P as

much avail S&P. Those inexplicable S&P emails that the government's case is based on will shape marketplace perceptions far more compellingly than the fact that investors suffered losses because SEC rules require institutions to hold assets highly graded by the agencies. The government's inconsistency won't surprise most of us.

Yet most of us are still surprised when S&P or any other business doing such sensitive work maintains a culture in which people feel free to send such indescribably stupid emails. Presumably, S&P is combing through a mass of yet-to-be-subpoenaed documents in search of exculpatory or additionally inculpatory material. Presumably, Moody's and Fitch are now doing a bit of just such internal due diligence as well.

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the road is certainly a long and arduous one for the agency as well. Considering the resources that S&P must expend, the reputational jeopardy it faces, and the advantage its competitors (if they're not sued too) will enjoy, even complete exoneration may be a Pyrrhic victory.

Nor will a number of strong points made in the media on its behalf soon after Black Monday

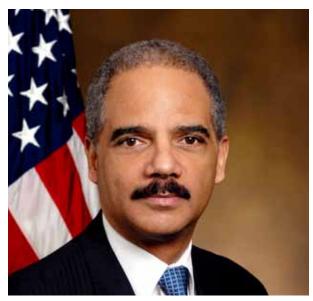
The fact that, way back in 2004, some S&P executives wanted to poll investment bankers about changes to its methodology further exacerbates the agency's position. On the plus side, some S&P analysts were appalled by this implicit conflict of interest—which, in turn, provides us with at least a first hint as to what S&P can now do to salvage its reputation and its future.

Some observers sound optimistic notes as well as a warning for the other agencies. "Any competitive disadvantage stemming from the Department of Justice civil action is likely to be short-lived," says Clare Williams, a leading blogger on rating agency issues, "This is clearly a test case and...should the courts find wrongdoing, fines and disciplinary action will almost certainly extend to other CRAs."

Given that S&P's competitors may get caught in the same dragnet, there's opportunity for the agency to jump out in front by acknowledging past mistakes in language that will not disserve its legal interests as it contends with the government's investigation. Public confession is a somewhat tired crisis management bromide but that doesn't mean it's not often effective, provided the confession is unequivocally heartfelt.

Particularly if S&P can simultaneously point to a large resolute coterie of integrity-driven analysts and executives—and, based on the reported internal reactions to the suggested poll of investment bankers, it may be able to do just that—the agency would at least bury its alleged misdeeds in the context of a systemic financial meltdown during which very few financial institutions were above reproach.

But an apology isn't enough. S&P must also attract business, which it would best do by articulating the value that, duly chastened and rehabilitated, it will now provide the marketplace. Articulate it in the most specific language pos-



Eric Himpton Holder, Jr. the Attorney General of the United States. Image / Wikimedia Commons.

sible, with the interests of its banking clients as well as public opinion in mind.

Importantly, this critical value statement will resonate most powerfully if it's predicated on the credible notion that the marketplace cannot function at its best with just two rating agencies left standing, especially when neither of them is likewise entirely out of harm's way. The world is just too complex. Any diminution in the services provided by the agencies would pose the greatest threat of all to investors.

In a word, the agencies are just too big to fail. That message might even fly with the government. It certainly has in the past.

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06

# The PR Problem — the — Pentagon & VA Share

Ernest DelBuono
Originally Published on Times.com





here's a saying that you can leave the military, but the military never leaves you. To me and many others who have separated from military service, the phrase has dual meanings. There are, of course, the experiences that we carry with us forever. But there are also the many benefits and resources that not only help former service members transition into the civilian world; but that remain available at all stages of civilian life.

That's why I found this week's story about the struggles of a former SEAL Team Six member so difficult to understand.

"The Shooter," as he is called in an Esquire article to be published in the March issue (but released on Monday), is reportedly the man who killed Osama Bin Laden. He suffers with arthritis, tendonitis, eye damage, and blown disks. Just four months after he left the service, and less than two years after he and his team rid the world of its most dangerous terrorist, he claims he has "nothing" to show for his service.

No health care. No pension. No prospects.

All that, even though the U.S. military's separation processes are among the most supportive, intensive, and transparent out there. There are complete physicals to identify any health or medical issues. There is counseling for those struggling to cope with their experiences. There are mentoring programs designed to provide veterans with one-on-one support and effective acclimation strategies. There are clear explanations of benefits that enable service members

to make the most informed choices about the future. There are even mock job interviews. And when you finally make your exit, you do so with a binder full of helpful resources and information under your arm.

The Navy's response to the story, shared most notably in a piece in Monday's Stars and Stripes, articulated most of these facts and did so in timely fashion.

But the notion that an American Hero would be so callously left out to dry has still created significant reputational problems for it and the other armed services. Worst of all, the story's timing compounds the issue.



It comes just a week after Chris Kyle's tragic death at the hands of a former Marine he was mentoring. As such, it is yet another report that frames veterans' issues in a negative context—just as the media is ramping up to cover more and more stories shared by combat veterans returning from Iraq and Afghanistan.

Even with all the support the military provides, some veterans will continue to struggle for any number of legitimate reasons—and when they do, you can bet that the media will document their hardships with a laser-like focus on who's to blame.

But what can the Pentagon do that it isn't doing already?

Its separation procedures far exceed any found in the private sector. It can't change the rules because it deems one service member's contributions more valuable than another's. Even if there were enhancements to be made, the chances they could be implemented in this era of sequestration are slim.

At the same time, the Pentagon can't keep running from public-relations fire to public-relations fire, hoping to contain the reputational damage as best it can. That's a perpetual game of catch-up that only reinforces the notion among veterans, active service members, and the public that the U.S. government is failing to adequately care for those who sacrifice so much for the American people.

Instead, the Pentagon needs to do a better job of controlling the overarching narrative.

Where are the competing, positive accounts of post-military lives made better because of the resources the military provides? Where are the success stories that can elicit a "that's not what I heard" response when veterans' struggles make news? Where are the intensely personal and emotional stories of achievement that can not only remind veterans about the support that exists; but also inspire them to use it?

Last year, one such story went viral and swept the social media world with more than 7 million views on YouTube. It shares the travails of Arthur, a disabled Gulf War veteran who had "basically given up" after chronic knee and back ailments led to significant weight gain and other associated health problems. It's hard not to tear up watching Arthur use yoga and other therapies to reduce the pain, lose the weight, and take back control of his life. When the video opens, he is on crutches and in wheelchairs. By the time it is done, he is sprinting.

Stories such as Arthur's—whether they are about physical health, mental wellness, or simple financial security—play out every day thanks to the programs administered by the Pentagon, VA, and a host of other entities. But until the military starts telling them in earnest —and across the digital and social media channels that most acutely impact perceptions today —they can't provide the cover needed to contain the damage when negative news inevitably arises.

Ernest DelBuono, a retired Coast Guard Commander, is a Senior Vice President at LEVICK and Chair of the firm's crisis practice.

10



# Change.org

### A Powerful Adversary for Brands

Kara Flynn and Vicky Vadlamani
Originally Published on LEVICK Daily

ell known multimillion dollar brands now have a powerful new adversary to tangle with. Change. org is a website that hosts petitions to "empower anyone, anywhere to start, join, and win campaigns for social change." Using Change. org, average citizens can speak with one collective voice on a host of Corporate Social Responsibility (CSR) issues, including human rights, education, the environment, and global access to a sustainable food supply.

PepsiCo, for instance, recently announced the removal of brominated vegetable oil (BVO), which is used as a flame retardant, from its Gatorade sports drinks after 16-year old Sarah Kavanagh's Change.org petition garnered more than 200,000 digital signatures. A similar campaign to get Coca-Cola to remove the same chemical in Powerade has garnered nearly 50,000 signatures, despite the fact that the U.S. Food and Drug Administration (FDA) has stated that BVO is safe for human consumption.

Thanks to Change.org, big brands such as Pepsi, Coca-Cola, and myriad others are finding themselves hurled into the center of high-profile debates about acceptable corporate behavior. The foremost reputational challenge is that these are not debates in which both points of view can be expressed. The website's format does not allow companies and brands to defend themselves. In many cases, all a company in the crosshairs can do is watch as signatures multiply.

Change.org and similar petition sites are gaining prominence in a Digital Age when everyday citizens can leverage social media as force multipliers that amplify their concerns. But there is a catch where Change.org is concerned. The site charges groups for the privilege of sponsoring petitions that are matched to users who have similar interests. When signing up, users are given an option to "Keep me updated on this campaign and others." When they opt-in for updates on certain issues, sponsors can then reach out to them directly via e-mail.

change.org

☐ Start a petition 
☐ Browse

Login or Sign Up

### The world's petition platform. What will you change?

Start a petition



Importantly, it is not made clear that when a user checks this option, his or her email address is being sold to the sponsor, who in turn floods the user with a deluge or marketing emails shortly thereafter. With a ".org" domain, there seems to be an assumption that "Change" is a non-profit organization, and that it exists simply to level the playing field between corporations and the little guy fighting for the greater good. In reality, that isn't the full the truth—but however the Change.org profits from its work, there is little doubt that the site is here to stay. Not only is it popular; it is a money-making machine that creates 15,000 petitions and gains two million members a month. As of this writing, total membership has reached more than 20 million people.

To combat the reputational onslaughts enabled by sites such as Change.org, brands must dominate the mediums where they can defend themselves. For example, Coca-Cola should be commenting non-stop in the blogosphere and other social media. It would even be well-advised to create microsites that support its stance and support those Web properties with cutting edge SEO and SEM strategies. Such activity not only ensures that the company's voice is heard; it demonstrates that the company takes consumers' concerns seriously and is willing to engage stakeholders in a transparent conversation about the issue.

In the coming months, Change.org warrants close monitoring from any brand large or controversial enough to attract activists' attention—a wide swath of the corporate spectrum to be certain. As social activism continues to evolve for the Digital Age, anyone can affix a target to any company's back. As such, every company needs to prepare as if it is the next in line.

Kara Flynn is a Vice President at LEVICK and contributing author to LEVICK Daily. Vicky Vadlamani is a Director at LEVICK and a contributing author to LEVICK Daily.

### **BLOGS** worth following



#### THOUGHT **LEADERS**

#### **Amber Naslund**

#### brasstackthinking.com

Amber Naslund is a coauthor of The Now Revolution. The book discusses the impact of the social web and how businesses need to "adapt to the new era of instantaneous business."

#### Brian Halligan

hubspot.com/company/management/brian-halligan HubSpot CEO and Founder.

#### **Chris Brogan**

#### chrisbrogan.com

Chris Brogan is an American author, journalist, marketing consultant, and frequent speaker about social media marketing.

#### **David Meerman Scott**

#### davidmeermanscott.com

David Meerman Scott is an American online marketing strategist, and author of several books on marketing, most notably The New Rules of Marketing and PR with over 250,000 copies in print in more than 25 languages.

#### **Guy Kawasaki**

#### guykawasaki.com

Guy Kawasaki is a Silicon Valley venture capitalist, bestselling author, and Apple Fellow. He was one of the Apple employees originally responsible for marketing the Macintosh in 1984.

#### Jay Baer

#### jaybaer.com

Jay Baer is coauthor of, "The Now Revolution: 7 Shifts to Make Your Business Faster, Smarter and More Social."

#### **Rachel Botsman**

#### rachelbotsman.com

Rachel Botsman is a social innovator who writes, consults and speaks on the power of collaboration and sharing through network technologies.

#### **Seth Godin**

#### sethgodin.typepad.com

Seth Godin is an American entrepreneur, author and public speaker. Godin popularized the topic of permission marketing.

#### **INDUSTRY BLOGS**

#### **Holmes Report**

#### holmesreport.com

A source of news, knowledge, and career information for public relations professionals.

#### **NACD Blog**

#### blog.nacdonline.org

The National Association of Corporate Directors (NACD) blog provides insight on corporate governanceand leading board practices.

#### PR Week

#### prweekus.com

PRWeek is a vital part of the PR and communications industries in the US, providing timely news, reviews, profiles, techniques, and ground-breaking research.

#### **PR Daily News**

#### prdaily.com

PR Daily provides public relations professionals, social media specialists and marketing communicators with a daily news feed.

#### **BUSINESS RELATED**

#### **FastCompany**

#### fastcompany.com

Fast Company is the world's leading progressive business media brand, with a unique editorial focus on business, design, and technology.

#### **Forbes**

#### forbes.com

Forbes is a leading source for reliable business news and financial information for the Worlds business leaders.

#### Mashable

#### mashable.com

Social Media news blog covering cool new websites and social networks.

### LEVICK INTHENEWS

### ARTICLES

*CNN* | FEBRUARY 15, 2013

How Carnival Can Clean Up the PR Mess

Fox Business | FEBRUARY 14, 2013

Dormant M&A World Finally Showing Signs of Life

*Times U.S.* | FEBRUARY 15, 2013

The PR Problem the Pentagon and VA Share

O'Dwyer PR | FEBRUARY 13, 2013

Crippled Ship Hobbles Carnival PR

# THE URGENCY OF NOW.