

01.10.06 (smz) – **HOW CEOS COMMUNICATE IN DIFFICULT SITUATIONS**

This comment analyzes a number of situations over the last two months where CEOs appeared in public. With our comments we want to contribute to the open pool of opinion and spark discussion. It is first in a series of three articles on the subject.

How to criticize unions who affect the company’s policies and balance sheet

Swiss-CEO Christoph Franz was outspoken when he commented on the pilot strike last week that led to cancellations of more than 800 flights, an “extremely dissatisfying situation” that he described as “derailment”. “A person with a banner in front of our building should be happy to have a work contract in the first place,” he said, adding that those people should say good-bye to their past, having enjoyed life in an extremely regulated and comfortable world.

Dr. Dieter Zetsche, CEO of DaimlerChrysler, criticized the United Auto Workers of Detroit for an “irrational” resistance to negotiating health-care costs similar to those concessions that had been given to GM and Ford there. “It is totally unacceptable that at this time we don’t have a level playing field with the two other guys in town. There is no rationale for it that I can understand.”

Klaus Kleinfeld, the CEO of Siemens, did not say much when he was heavily criticized for his salary increase of about 30% annually at a time when he did not prevent his mobile phone joint venture with BenQ from being sent to insolvency last week. Kleinfeld’s quote “we are very concerned of this development ...” was rejected by politicians who wondered if this move had been planned in advance. The step was “a dirty trick”, said the IG Metall union representative of the city of Munich, where Siemens headquarters are located.

When two opposing parties comment on each other's move in the public it is wise not to make personal attacks but to describe the situation from a personal perspective (“an extremely dissatisfying situation”, “there is no rationale for it that I can understand”). We do understand the public rage about Kleinfeld's comment, though. Is he really “concerned about this development”? The statement seems lame. Why did he give the last word to the union representatives? He might have said: “...I find it unproductive to call on us as the enemy at a time where we still can join forces to find a solution ... I am open to talks with our union partners but I do not accept threats and personal attacks.”

How to take responsibility for company tactics that proved to be wrong

H-P CEO Mark Hurd apologized last week for his company's use of alleged illegal tactics to find out about a possible leak to the press amongst their board of directors. On Sept. 22nd he characterized his company's behavior as a “rogue operation” and castigated investigators for being “so focused on finding the source of the leaks that they lost sight of the values of this company.” Across the U.S. political spectrum, it is heard, a prodigious run of mea culpas can be heard, so Hurd's apology is in line with current thinking in the U.S. In Europe. soccer star Michael Ballack proved in mid-September that an apology calms down a difficult situation immediately. He was shown a red card in his first game as a new hire for Chelsea London in a top game of the UK premier league, when he stepped on Liverpool player's Sissoko's knee. “On TV, it looked terrible”, Ballack said later, I can only apologize. It was a bad situation, since I was late and did not want to hurt him. I like him.” As a result of this apology Chelsea trainer did not further punish Ballack and his professional start in the UK was saved.

BP did not apologize for having requested changes to a critical report about their corrosion-monitoring program at Prudhoe Bay (where 760,000 litres of crude oil had spilled onto the tundra) from the authors of the study, an independent engineering

company. In the ‘edited’ report, critical commentary was replaced by positive comment or simply deleted. An official BP statement said that “we were merely trying to point out errors ... and weren’t trying to pressure anyone.”

At EADS nobody apologized for having leaked confidential board room information in June 2006 about the first in a round of delays for the new Airbus model A380, but those leaks sparked a crisis which claimed the scalps of two top executives at Airbus and EADS.

Consequently, the third announcement of an A380 delay on September 29, revealed that according to BNP Paribas the delays may slice 1 billion euros from EADS's earnings, slowly casting doubt on the new Airbus CEO, Christian Streiff.

We are under the impression that it leaves a trace of doubt about a company and it’s ethics, if a CEO does not take responsibility or doesn’t apologize. Spokespeople for the company in that case must look stupid by definition because they are forced to make comments such as: “Discussions are going on and as announced by EADS, the company will say something in the near future.”



(to be continued, 1st in a series of 3 articles)

Coming next: How to comment on activist shareholders moves and statements on your board, How to refuse analyst comments and strategy suggestions, How to raise the company forecast, How to defend a salary increase and a lay-off of workers at the same time