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Christopher York
Sacred Heart University, yorkc@sacredheart.edu

Andra Gumbus
Sacred Heart University, gumbusa@sacredheart.edu

Stephen J. Lilley
Sacred Heart University, lilleys@sacredheart.edu

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Reading the Tea Leaves—Did Citigroup Risk Their Reputation During 2004–2005?

Baruch College, New York City

CHRISTOPHER C. YORK, ANDRA GUMBUS AND STEPHEN LILLEY

ABSTRACT

In this paper, we challenge the conventional wisdom that high-quality news reports of questionable corporate business practices will stimulate various marketplace negative responses, which in turn, will pressure management to undertake actions designed to protect the organization’s reputation. Analysis is confined to a relatively brief period of bad news relating to Citigroup, Inc. We conclude that while none of the expected negative marketplace responses are evident in widely
available news sources, the CEO did exhibit significant concern and instituted a targeted reputation risk management program. In the absence of a concerned CEO, analysts should not, we suggest, expect a management team to respond with reputation-enhancing corrective action solely as a reaction to negative publicity regarding questionable business practices.

INTRODUCTION

A reassuring model of corporate reputation describes a system correction mechanism by which the free press discloses mismanagement and unethical behavior and the market punishes a corporation for a tarnished image. For corporate managers all too aware of the certain, swift, and severe sanction meted out to Enron, for example, the lesson should be clear: The protection of reputation is a business priority and, as such, should be institutionalized. There is, however, wishful thinking behind this model: Fostering reputation can be perceived optimistically as an automatic, routine business practice not requiring exceptional leadership on the part of executives. Nowadays we are encouraged to face inconvenient truths, but is the received wisdom regarding corporate reputation too convenient?

The purpose of our study is not to contest the fact the some corporations invest in reputation to realize financial goals. We acknowledge (and admire) corporations that achieve profitability in part by impressing consumers by means of environmental stewardship, philanthropy, customer satisfaction, etc. However, we also recognize businesses that due to the nature of their products or questionable tactics demonstrate little regard for reputation and prosper nevertheless. More interesting still are the corporations that are inconsistent over time.

We selected Citigroup (and its predecessor, Citicorp) as a case study of this third type. Citigroup is a diversified global financial services holding company that consistently ranks at the top of the Fortune 500. In 2006 it had 300,000 employees worldwide, revenues of approximately US$90 billion, assets of US$1.9 trillion, and more than 200 million customer accounts (Citigroup 2006 Annual Report). Our primary researcher was directly involved with Citicorp’s
remarkable initiative in the 1970s of building an infrastructure to ensure good corporate practice. Citicorp enjoyed the fruits of this labor with a fine reputation throughout the 1980s. In sharp contrast, Citigroup’s reputation was severely compromised at the turn of the millennium. Curiously, despite a barrage of regulatory actions and negative publicity, there appeared to be no attempt by leadership to repair the damage. In a dramatic reversal, CEO Charles Prince publicly announced in February 2005 the five-point plan—an organizational recommitment to integrity and responsibility.

To better understand this “reputation turnabout,” we conducted a content analysis of over 100 news articles critical of Citigroup written between October 2004 and June 2005. We also gathered data on stock and market performance. As a form of forensics, our investigation reconstructs the environment that Prince and Citigroup faced. Specifically, we address these research questions: How did the quantity and type of negative articles vary during this time frame? Was Citigroup being punished by the market before the turnabout? We find that although a “perfect storm” of bad publicity struck Citigroup, this was not compounded by market sanctions. Although different from the voluntary and proactive policy of the 1970s, the more recent five-point plan can be seen as an act of corporate self-determination rather than a system correction.

CORPORATE REPUTATION

Reputation is formed by the beliefs that people hold about an organization based upon their experience with it, their relationship to it, and their knowledge gained through word of mouth or mass media. Reputation is also formed by internal structures and statements that define ethical codes, strategic plans, mission or vision statements or corporate brand value propositions that clearly state what the company stands for. Reputation also comes from the past behavior of the organization and word-of-mouth reputation based on what people say about the organization. Reputations are important and valuable because they impart confidence in the organization and people feel good about buying its products and services.

Other internal measures of control are the annual report and other performance measurement systems that indicate performance against objectives such as the balanced scorecard and the triple
bottom line. These tools report on indicators in addition to profitability such as people and the planet, or operational, social, and environmental factors.

It is commonly understood that reputation is important and valuable because it imparts confidence in the organization and people feel good about buying its products and services. Added benefits of a solid reputation include intangibles such as individuals feeling safe in purchasing stock, working in the company, and sharing company merits with others. Unfortunately, over the past 6 years the media has been flooded with articles about corporate scandals, fraudulent reporting, excessive executive compensation, and illegal stock manipulations. The lack of trust in business leaders has steadily declined, with business leaders ranking as low as politicians and journalists on the scale of trusted professionals.

The World Economic Forum accepted a statement on Global Corporate Citizenship in 2002 that spoke of reputation as a component of good citizenship. Many would like to see the board and the CEO held accountable for reputation. Executives have been encouraged to identify and respond to operational risk as well as the traditional financial risk factors in their performance measurement systems. They are told to be proactive in quantifying risk factors and responding before a crisis or problem with reputation surfaces. For example, Eccles et al. (2007) assert that:

Executives know the importance of their companies’ reputations. Firms with strong positive reputations attract better people. They are perceived as providing more value, which often allows them to charge a premium. Their customers are more loyal and buy broader ranges of products and services. Because the market believes that such companies will deliver sustained earnings and future growth, they have higher price-earnings multiples and market values, and lower costs of capital. Moreover, in an economy where 70–80% of market value comes from hard-to-assess intangible assets such as brand equity, intellectual capital, and goodwill, organizations are especially vulnerable to anything that damages their reputation. (2007)

**Corporate Reputation: Whose Job Is It?**

Managing reputation has moved to the forefront of executive responsibilities with increasing emphasis on maintenance of image
and protection of brand. The Reputation Institute surveyed 30,000 people to determine their perception of 600 companies that included the 300 largest worldwide. Kraft Foods was the only U.S. company that scored near the top while others like Tyco, Exxon Mobil, and Altria scored low, confirming their tarnished reputation. Interestingly, Halliburton had the worst reputation score worldwide. On the other hand, companies like Starbucks and General Electric have made investments in building a reputation built on quality and trust. Ultimately, the board and the CEO are held accountable for reputation after receiving advice from public relations, corporate communications, marketing, and other constituencies.

Fortune’s list of America’s most admired companies listed the attributes of reputation among corporate leaders as: innovation, people management, financial soundness, quality of management, use of corporate assets, social responsibility, long-term investment and quality of products/services. These categories were created in an effort to distill reputation into eight tangible areas of leadership. On March 26, 2007, Business Week came out with their list of the 50 best-performing companies in 2006 and again Citigroup failed to make the list. Citigroup was cited in the April 2007 issue of the Harvard Business Review as suffering integrity lapses resulting in catastrophic fines. “Integrity lapses can now have catastrophic financial consequences liabilities in the hundreds of millions or several billion dollar range for Citigroup, JP Morgan Chase, Adelphia, and Computer Associates. A company’s reputation and morale, which may have been built over decades, can be shattered in months” (Heineman 2007).

Much has been written in the past 3 years about the topic of reputation and how to manage it. Executives have been encouraged to identify and respond to operational risk as well as the traditional financial risk factors in their performance measurement systems. They are told to be proactive in quantifying risk factors and responding before a crisis or problem with reputation surfaces.

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and services. Because the market believes that such companies will deliver sustained earnings and future growth, they have higher price-earnings multiples and market values and lower costs of capital. Moreover, in an economy where 70–80% of market value comes from hard-to-assess intangible assets such as brand equity, intellectual capital, and goodwill, organizations are especially vulnerable to anything that damages their reputation. (Eccles et al. 2007)

Eccles, Newquist and Schatz recommend a framework for managing reputation risk that includes: assessing reputation, evaluating reality, closing the gaps whether reputation is greater or lesser than reality, monitoring changing beliefs and expectations through surveys of stakeholders groups and putting one person in charge.

**Complexities of Reputation Management**

Reputation management is not straightforward and is not a matter of recognizing a clear, favorable cost-benefit ratio. However, one wonders if the underlying assumptions are too simplistic, for example, that risk and response are obvious. A few writers suggest that (1) measurement problems, (2) capital trade-offs, or (3) alternative responses to reputation threats make the reality of managing reputation much more complex.

*Measurement Problems* Managing reputation is made difficult by the fact that there is no framework or a common standard to use for measuring risk (Buehler et al. 2004). Even the Basel II international banking regulations that took over 5 years to create did not address the area of reputation nor did it offer best practice risk rating systems in this area. An industry-standard reputation assessment model that can assess impact and influence has been discussed in the advertising industry for decades. Advertising departments measure brand attributes such as familiarity, favorability, and buying intentions using tracking studies; however, this type of measurement needs to expand to encompass other aspects of reputation (Capozzi 2005).

Reputation is also difficult to quantify because it is a matter of perception among many and varied stakeholders. Each of these stakeholder groups may hold a different perception of reputation based upon their relationship to the company. Reputation also
varies based upon the aspect of the business that is considered. For example, services, products, social responsibility, and financial soundness may have differing reputations that all contribute to the overall corporate reputation.

*Capital Trade-offs* Preston argues that reputation is a form of capital that is subject to the same types of risk and depreciation as other forms of capital:

> Reputation is neither different from all other attributes of the corporation, nor merely a composite descriptor of all of them. It is an integral, but distinct, asset (or where negative, liability). And, like most assets, it can be enhanced by investment and innovation; and it is subject to risk, depreciation and obsolescence. On the other hand, reputation can fluctuate without destroying all other sources of values of the firm. (Preston 2004)

Using the example of Arthur Andersen, he warns that a significant loss of reputation can prove fatal. Nevertheless, it is conceivable that a reduction in reputation may be offset by gains in business ventures so that the enterprise as a whole may survive. Moreover, executives may be under pressure to make trade-offs. Veiga et al. (2004) found that 74% of executives will bend rules in order to achieve objectives for the greater good of the company.

It is instructive to note that companies are still primarily measuring financial returns despite the popularity of the Balanced Scorecard introduced by Kaplan and Norton in 1992 and used by over 60% of Fortune 500 companies. Quinn (2004) notes that some corporations purchase reputation insurance developed by insurers and brokers in order to protect against severe financial loss due to a crisis.

*Alternative Responses* Heugens et al. (2004) notes that organizations develop four different capabilities in order to protect against threats to reputation. These are: dialogue capability, advocacy capability, corporate silence, and crisis communication. The first is the capacity for managers to engage in dialogue and build trusting relationships with external stakeholders and constituencies. In the second, managers use persuasion to convince external audiences that the goals pursued by the company are ethical, correct, and right even if the means are controversial. Outside image management
firms or specialized corporate communications experts manage these public relations campaigns. In the third, a choice of remaining silent is made in order to not flame the fire and add to the knowledge of the risk. By avoiding a response a calculated decision is made to remain silent and not address the concerns directly—saying nothing is better than saying something. In the fourth, a crisis communication protocol is established that outlines exactly who can reply to the media and what they must say. These are spelled out in policy and procedures (Heugens et al. 2004).

**Reputation as Social Capital**

Recent research in the area of reputation focuses on the intangible assets of organizations that add value such as the actions of individuals, the behavior of groups, and the collaboration and sense of good that internal and external stakeholders feel for the company and its’ executives. The past behavior of the company contributes to the interpretation of current events and the predictions of future events that affect the organization. Social currency can be an asset and social liability can be costly to the organization. Talmud has studied corporate social capital and describes it as an entity that encompasses the entire organization that is accumulated over time. As such, he states that it can deteriorate without proper care and feeding and can be expensive to maintain (Talmud 1999). Preston writes that reputation is more easily quantified and measured when it becomes a liability by damaging headlines, lawsuits, criticism of executives, fines, and public outcry or scandal. These result in a loss of overall market value of the company—even if the stock price does not drop considerably. He argues that after the Arthur Andersen collapse its employees found other work yet the company was demolished due to the lack of trust in its processes. “These and other examples suggest that the value of reputation is asymmetric, likely to be considered greater when it declines than when it improves. It is unlikely that any conceivable improvement in the reputation of a firm could result in a 100% increase in the firm’s value. As many actual cases reveal, it is possible that a significant loss of reputation can force a firm into liquidation (100% loss of value)” (Preston 2004). The lack of sound measurement has hampered the study of reputation and the quantification of its components.
CITICORP: A CASE STUDY

Citigroup makes a fascinating case study because the company’s approach to its own reputation and its strategies to manage reputation has changed over time. We identify three chapters: (1) the 1970 thru 1980 period of proactive reputation, (2) corporate silence and the nadir of reputation at the millennium, and (3) the re-commitment to reputation in 2005. Our content analysis study zooms in on the months between October 2004 and June 2005—the transition period between the second and third chapters.

Proactive Reputation

Citicorp was the predecessor corporation to Citigroup and the primary researcher was its Associate General Counsel and Secretary of the Citibank Board of Directors in the late 1980s. Walter B. Wriston and John S. Reed served consecutively as Chairman and CEO during all of the primary researcher’s 19-year Citicorp career (1970–1989). During that period, to the best of his recollection, only one whistleblower surfaced, and investigations of his allegations by an outside auditing firm and the internal committee on good corporate practice found nothing to substantiate his claims. This record can be credited in retrospect to an entire infrastructure put in place in 1972 and enhanced throughout the intervening years.

At a Citicorp board public issues committee meeting on June 16, 1986, the primary researcher, as the founding secretary from 1972 and then member of the Committee on Good Corporate Practice, outlined the infrastructure. “In 1972 the board established the Committee on Good Corporate Practice [to] provide a sounding board for the ethical concerns of management, employees and the Board. It holds meetings on call and reports annually to the Board on its findings. ... In 1976 the Policy on Conflicts of Interest and Ethical Standards was printed separately ... in order to give an even wider distribution [and] the Committee directed that work should start on an instructive video tape with a strong message from the Chairman” (Document from personal archives of primary researcher). The committee on good corporate practice consisted of a vice chairman, the general counsel, the secretary and two line executive vice presidents with the former being permanent members and the latter two positions rotating among EVP’s every 2 years.
The report to the board committee covered the global distribution of the policies with sign-offs reflecting acceptance and understanding by each employee surveyed. Employees were also encouraged to report ethical concerns. The surveys were returned to the outside auditors in order to maintain confidentiality and permit anonymous tips to be investigated by the auditors and reported directly to the committee on good corporate practice for remedial action. These were included in the committee’s annual report to the board of directors.

A cost-cutting proposal by McKinsey & Company’s consultant study to reduce the frequency of the global survey was rejected by John Reed. Subsequent to the report to the board public issues committee, he also ordered an expanded training effort to emphasize the Citicorp code of ethics. This stimulated the development of a realistic board game/role playing scalable methodology used by managers around the world to sensitize all levels of management and staff to solutions to common business ethical issues. In addition, human resources, attorneys, and compliance officers in business units were, in a sense, deputized to act locally on behalf of the committee on good corporate practice. The budget to maintain this infrastructure increased from year to year.

To the credit of the Citicorp managers, they anticipated challenges to reputation as the company expanded globally. Bad publicity and market sanctions, far from being causal variables dictating organizational response, became dependent variables subject to control. First, reputation was established as a priority, trade-offs were not allowed, and capital—economic, social, and personal—was invested to safeguard reputation. Second, the global survey served both as a measurement tool and an early warning system. Third, dialogue capability was practiced as a way for Citicorp to develop trusting relationships with stakeholders and constituencies throughout the world.

**Corporate Silence**

By 2004 Citigroup’s reputation suffered dearly and the executives at the time chose the third option of corporate silence in order to keep the company name out of the public eye and avoid public debate as much as possible. Citigroup adopted this “uncertainty avoider approach” in the decision to remain quiet and refrain from
disputing or challenging over 100 examples of negative press in that year alone.

Dowling writes that some companies that deal in objectionable products may intentionally hide from the public eye and not advertise or flaunt their success (Dowling 2004). These industries such as pornography and tobacco have a strategy that keeps them out of the media due to their nature being “bad but necessary.” Clearly, Citigroup does not fall into this category.

Why did Citigroup choose this response over other alternatives? There are several weaknesses to remaining silent. The approach is based on a hope that all will remain silent and that this will be successful in disassociating the company from the threat. There is no guarantee that someone will not blow the whistle. Another weakness is the attempt in a very large and complex organization to maintain one voice and reply (or not reply) in a standardized manner. Anyone who does not conform to the party line of the company must be silenced, and strict rules must govern the critical few who can reply to the threat. Anyone who speaks out in this situation must be punished or penalized as opposed to the standard corporate reward system of recognizing compliant behavior (Heugens et al. 2004).

According to conventional wisdom, negative publicity broadcast by influential media is the corporate leaders’ proverbial “worst nightmare.” Bad news, particularly news that can be interpreted as casting a shadow of possible unethical business practices on the organization’s reputation, should generate some response from the public. In fact, courses in business ethics teach routinely that the marketplace will punish companies and executives perceived to engage in sharp practices. Instructors say that this punishment can be gauged by poor stock performance, inability to hire new talent and loss of experienced managers and directors, and customer defections. Over time, these negatives will lead to reduced market share and earnings. All these factors should, according to conventional wisdom, combine to create a powerful incentive to counter bad publicity. At best they also motivate senior management to institute norms within the organization so that neither an insider nor an outsider can find a scintilla of evidence to demonstrate that, in fact, an unethical business practice occurred. This is particularly true when modern media’s memory for allegations of misdeeds is always fresh thanks to digitized information storage and retrieval. Bad news never goes away.
We use Citigroup in this analysis because it has navigated through years of bad news without publicly suffering any of the punishments we expected. If the organization was punished, other than in legal and administrative proceedings, the punishment did not yield to our research, which was intentionally time-bound (August 2004–August 2005) and limited to major public print media respected in financial and investor circles.

To give a sense of the longevity of bad news, The New York Times included a brief reprise of the highlights since 2004 in a story on April 10, 2007, about Citigroup considering reducing the number of employees involved in compliance.

Cuts in compliance would represent a reversal from a few years ago, when Citigroup, like other banks, was tarred by its dealings with Enron and WorldCom and by investigations into analysts’ conflicts during the Internet boom. A series of rapid, huge Euro bond trades by Citigroup bankers, referred to as “Dr. Evil” trading strategy, roiled markets in Europe in August 2004. That fall, Citigroup’s private bank had a run-in with Japanese regulators over lax money laundering controls. For more than a year, Citigroup was banned by the Federal Reserve from making a big acquisition until its financial house was in order. (Dash 2007)

To give a sense of the bad news in the new millennium, we offer a collage of excerpts from news stories:

Citigroup agreed to pay $2.65 billion to settle a class action lawsuit filed by investors who lost money in WorldCom, which filed for bankruptcy protection two years ago. It is the second largest class action settlement in history, after Cendant’s, and the largest ever paid by a bank. . . . All told, Citigroup has reserved $6.7 billion for settlements and fines related to financial abuses since 2002. In addition to $325 million to resolve analyst conflicts, the firm was fined $1 million by the New York Stock Exchange for failing to supervise WorldCom’s stock option program. (New York Times, May 16, 2004, p. 1)

Citigroup has agreed to pay $2 billion to investors who accused the bank of aiding Enron in its accounting scandal. (New York Times, June 11, 2005, p. 1)
Citigroup, the world’s largest bank, said yesterday it regretted executing a jumbo trade of European government bonds in August. The trade shook the market and prompted an investigation by financial regulators in the UK and continental Europe. (The Financial Times, September 15, 2004, p. 1)

In one of the severest penalties ever imposed on a bank in Japan, regulators on Friday ordered Citigroup to close its Japanese private banking operations because of serious violations of the country’s banking laws. (New York Times, September 18, 2004, Business, p. 1)

In February 2004, Citibank lost data in Singapore for 120,000 Japanese retail customers, raising more concerns among officials about its internal controls. That problem contributed to a separate FSA order demanding that Citibank improve procedures for safeguarding client information . . . In [a] private bank, inspectors found Citibank had allowed transactions in one account that raised suspicions of being associated with money laundering, an account that had been flagged as suspicious by Citibank branches in other countries, the FSA said. They found evidence that bankers failed to do complete background checks on some clients, an agency official said in an interview. Citibank also opened accounts for clients on international watch lists for suspected involvement in Asian gambling rings, the official said.” (The Wall Street Journal, October 25, 2004, p. C3)

Other reports during the time period focused on lesser transgressions (see Appendix A for a sampling of headlines), but the normal markers an analyst would examine for clues as to whether the marketplace was punishing the transgressor for shoddy business practices revealed no needle movement that was not explained by standard business data such as earnings performance relative to peers, perceived lack of management control over expense growth relative to revenue growth, or competitors’ thrusts into traditional Citigroup areas of strength.

In sum, we find no evidence of the marketplace either “punishing” or “rewarding” Citigroup on the basis of news during this period of significant developments regarding various adverse regulatory actions. In addition, there was no evidence in the same print media of customer, senior executive or director defections. Nor was there any indication of difficulty in accessing executive talent in the
marketplace. Finally, there was no evidence of Citigroup public relations resources being deployed specifically to counteract the adverse publicity. Of course, our media sample is limited, albeit influential, and we had no access to the personnel records of Citigroup or its board’s deliberations, but then neither did the average or even the sophisticated institutional investor who would be the decision makers meting out marketplace rewards and punishments.

**Recommitment to Reputation**

The strategy of corporate silence was completely reversed on February 5, 2005 when CEO Charles Prince publicly announced the Five Point Plan. It represents such a significant juncture in Citigroup’s approach to reputation that we felt it worthwhile to reprint the set of five initiatives:

1. Expanded training in several areas, including ethics, leadership, history of the franchise, and governance.
2. Improved communications that opened new channels of communication between senior management and employees, not just top-down but also from the bottom up.
3. Enhanced focus on talent and development, including 360° reviews for senior management and a significant expansion of our executive development programs.
4. Balanced performance appraisals and compensation such as the implementation of a common appraisal system for all Citigroup senior managers and a close link between compensation and the shared responsibilities [to clients, fellow employees, and franchise].
5. Strengthened controls, including the separation of compliance from the businesses as a truly independent function along with an increase in budget and headcount for compliance and audit functions of more than 20% (Notice of Annual Meeting Stockholder’s Proxy Statement 2006).

Is Citigroup harkening back to the period when these standards and measures were institutionalized? Has Citigroup come full circle? There is a major difference between now and then in that Citicorp in the 1970s exercised full autonomy in proactively building a reputation infrastructure. In contrast, did Citigroup, under the leadership
of Prince, act with self-determination or simply capitulate to media and market pressures to reform? Phrased in terms of research questions we ask: How did the quantity and type of negative articles vary at the time of this reputation turnabout? Was Citigroup being punished by the market before the turnabout? We conducted the following study to address these questions.

**EMPIRICAL ANALYSIS OF CITIGROUP OCTOBER 2004–JUNE 2005**

Content analysis was conducted on newspaper articles published between October 2004 through June 2005 from the *Wall Street Journal, New York Times, Financial Times, Forbes,* and *The Economist.* The researchers included only those reports that were critical of Citigroup in one or more of the following areas: ethics, personnel, penalties, customer relations, and brand identity. A case was created per reported issue or problem. We found that writers often presented multifaceted critiques, so it was quite common to derive two or more cases from a single article. Each case was further identified according to whether the news story identified a past, current, or future problem for Citigroup.

As can be seen in Table 1, there were a total of 114 news articles critical of Citigroup averaging 12 critical pieces per month, with the *Wall Street Journal* and the *Financial Times* publishing the most.

Approximately two issues were raised per article, yielding a total of 193 cases of reputed problems (see Table 2). Nearly half (98) of the cases entailed criticisms of Citigroup’s business ethics.

It was not only the quantity of bad news that Citigroup managers had to face but also, more comprehensively, the impression of a

<table>
<thead>
<tr>
<th>News Source</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td><em>Wall Street Journal</em></td>
<td>41</td>
<td>36.0</td>
<td>36.0</td>
</tr>
<tr>
<td><em>New York Times</em></td>
<td>23</td>
<td>20.2</td>
<td>56.2</td>
</tr>
<tr>
<td><em>Financial Times</em></td>
<td>47</td>
<td>41.2</td>
<td>97.4</td>
</tr>
<tr>
<td><em>Economist</em></td>
<td>1</td>
<td>0.9</td>
<td>98.3</td>
</tr>
<tr>
<td><em>Forbes</em></td>
<td>2</td>
<td>1.7</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>114</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>
continuum of ills. Most of the cases (90) dealt with problems facing Citigroup at the time of the news story, but 79 referred to past shortcomings. Twenty-four cases were future oriented, primarily concerned with expectations of penalties to be imposed on the corporation. The news articles, as a set, suggested prolonged mismanagement on the part of Citigroup executives and personnel.

Figure 1 displays a month-by-month timeline of when the respective cases from the news stories were published. The number of critical cases, high in October 2004, had diminished somewhat

<table>
<thead>
<tr>
<th>Issue</th>
<th>Frequency</th>
<th>% Pre-Oct 04</th>
<th>% Oct 04–June 05</th>
<th>% After June 05</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ethics</td>
<td>98</td>
<td>75.5</td>
<td>24.5</td>
<td>0</td>
</tr>
<tr>
<td>Penalty</td>
<td>45</td>
<td>4.4</td>
<td>44.4</td>
<td>51.1</td>
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<tr>
<td>Personnel</td>
<td>31</td>
<td>6.5</td>
<td>93.5</td>
<td>0</td>
</tr>
<tr>
<td>Brand</td>
<td>15</td>
<td>6.7</td>
<td>86.7</td>
<td>6.7</td>
</tr>
<tr>
<td>Customer Relations</td>
<td>4</td>
<td>0</td>
<td>100</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>193</td>
<td>N = 79</td>
<td>N = 90</td>
<td>N = 24</td>
</tr>
</tbody>
</table>

**TABLE 2** Descriptive Statistics for Reported Issues

**FIGURE 1** Month-by-month timeline of when cases appeared in print.
by January 2005; however, the number of cases spiked to the highest level in the following two months. Of the nine-month period under investigation, this was the point of greatest negative publicity regarding Citigroup and its reputation. It was in February 2005 that Prince announced his five-point plan.

A closer examination of the timelines for the particular types of issues (see Figure 2) reveals that a spike in the months of February and/or March occurred across the board. (Due to the small number of cases, data for customer relations were not included in the graph.) Was Prince’s unprecedented announcement in reaction to, or in anticipation of, this “perfect storm” of bad news? Did his public statement have the effect of temporarily quieting the critics in the months of April and May 2005?

What of Citigroup’s stock performance during this time period? Given the numerous factors that might influence the buying and
selling of stock, could negative publicity regarding reputation become a singular, driving force behind stock price? Figure 3 depicts the monthly average closing price for Citigroup stock between October 2004 and June 2005. Note that despite the large number of critical news accounts between October 2004 and February 2005, Citigroup’s value steadily increased. Prince’s announcement was clearly not in reaction to sliding market worth. The value of its stock did drop in March and April 2005, the months immediately following his announcement and the worst spike in bad publicity. However, the stock market in general, as indicated by the S&P 500 Index, dipped at this time as well (see Figure 4).

We note a limitation in our study comparing stock price and news story patterns established by this content analysis. This...
comparison could be confounded by positive stories about the company such as profitability, cost cutting initiatives or other positive measures reported in the media. Appendix B does include some references to both positive and negative articles during February and March 2005.

**DISCUSSION**

If there was evidence that both the business press and market were antagonistic to Citigroup we could better imagine the reputation turnabout in February 2005 to have been caused by the external environment. However, there is no evidence of market punishment. Perhaps the quantity, variety, and timing of the bad news were so unprecedented that it demanded a Citigroup response. However, during its corporate silence period Citigroup seemed quite adept at ignoring bad publicity. What changed?

Reputation risk is of concern to Citigroup’s CEO, Charles Prince, and it was important to Sandy Weill, the former CEO of Citigroup and architect of the Travelers’ Insurance Company 1998 merger with Citicorp/Citibank. We agree with the assessment Alan Murray expressed in his *Wall Street Journal* column of March 2, 2005 (p. A2). “While few would charge Mr. Weill with being unethical—’tough but honest’ is a phrase used by those who know him—he built Citigroup’s financial empire with a ruthless focus on cost-cutting, deal-making and financial performance. He didn’t spend much time talking about ‘values,’ ‘ethics’ or ‘shared responsibilities.’” In the same column Alan Murray quotes Charles Prince, “‘We emphasized the short-term performance side of the equation exclusively,’ he said. ‘We didn’t think we had to say: “And by the way, don’t violate the law.” There were unspoken assumptions that need to be spoken.’”

Ultimately it is up to executives to take seriously the image of the corporation as reflected in the press, to set the tenor for good practice, and invest in reputation. The external environment can not do that for them. Seidman explains that “ethical leadership starts with a vision that making ethics essential and central within the fabric of an organization will enable it to achieve its aspirations. Ethics at the core and as a constant underpinning will channel abilities and skills to sustainable, appropriate activities. Leaders encourage what
they reward and celebrate.” He outlines a proven approach to ethical leadership as four actions: demonstrate the importance of ethics from the top, make ethics essential to career advancement, publicly reward ethical behavior and publicly punish lapses, and make ethics for everyone across geography and cultural barriers. (Seidman 2004) Similarly, Gates (2004) identifies the critical role of leadership in the ethical commitment process to set standards, regularly communicate and a leadership review of ethics-in-action.

Recent media attention has focused more on the people at the top of corporations than on the corporation itself. We have come to associate companies by their celebrity CEO’s whether they be positive or negative personalities. The CEO personifies the company. In this study we are not attempting to answer whether the reputation of the CEO creates the company reputation or whether the company reputation creates the reputation of the CEO. We have found much in the review of the literature to suggest that the CEO is often synonymous with the company and is used by the media as the most authoritative spokesperson for the company. Fombrun and Shanley (1990) studied the effects of media on the perception of firms in a study of 292 corporations. Media coverage influences the image and intense media coverage can influence the success or failure of a company. Park and Berger hypothesized that larger companies will receive more media attention than smaller and that presentations of CEO’s with a positive story valence will predominate over negative valence. The biases of the reporter and the goals of the media can affect the tone of the news story. For example, they postulate that because the Wall Street Journal is the leading business paper (and conservative) it will have more coverage and more positive coverage of CEOs than other media. On the other hand the New York Times is more liberal and influences the content of other media (Park and Berger 2004).

A company may appear to have a reputation infrastructure in place with, for example, an identifiable code of ethics; however, the leadership determines whether these are proforma or put into practice. Indeed, in 2003 Citigroup published a “Code of Conduct” and “Citigroup Initiatives Corporate Governance and Business Practices” brochures and yet, as we have seen, a number of scandals erupted that year and the next. Veiga et al. (2004) notes that ethical norms of an organization may not be followed unless an expectation to follow rules is set from the top.
We hope that Charles Prince’s “five-point plan” will reconstitute the essential parts of the infrastructure that Citicorp sustained over almost 25 years. The Wall Street Journal reported, “… Mr. Prince said the plan, which emphasizes staff training and fortified internal controls, grew out of a need for the world’s largest financial services firm to better balance its ‘delivering the numbers’ culture with a longer-term attention to reputation” (The Wall Street Journal, February 17, 2005, p. C3). We commend his vision and we hope that when pressure increases to allow trade-offs, when impatience grows with incurring the costs of an effective program, and when vigilance wanes, as all these will, that Citigroup leadership will act with self-determination to affirm the value of its reputation.

**EPILOGUE**

Citigroup continued to warrant headlines in 2006, 2007 and to date in 2008. The following quote from a New York Times story of November 27, 2007 (p. C1) under the headline “Citi Sells a Stake to Bolster Finances” will remind the reader of the issues management will grapple with well into the future. The sale referred to in the headline was of a 4.9% equity stake to the Abu Dhabi Investment Authority.

Citigroup’s shares have dropped sharply since October [2007], when billions of dollars in write-downs [charge-offs and reserve increases due to deteriorating “subprime” loans] first started to mount. Citigroup’s shares closed down more than 3% yesterday, at $30.70, and continued to drop in after-hours trading. Its 52-week high was $57, set in late December 2006.

Since October, Citigroup has announced another $8 billion to $11 billion charge related to bad subprime mortgage investments, which might wipe out its fourth quarter profits. And some analysts project that an additional $4 billion charge could be in the offing.

The company’s struggles raise serious questions about its diversified business model and risk management practices during one of the most turbulent times in its history. There have been bad trading bets at its investment bank, souring mortgage and credit card loans in its consumer division, and bloated costs and a shortage of management talent across the company.
Since Charles O. Prince III resigned as chairman and chief executive last month, Citigroup’s board has been looking for a new leader. [On December 11, 2007 the board named Vikram Pandit as CEO and Sir Win Bischoff as chairman.] Analysts and investors have renewed their calls to dismantle the company, pointing to its recent woes as evidence that it is too big to manage.

In fact, the 2007 fourth quarter loss was US$9.83 billion and in January 2008 Citi launched a search for a US$14.5 billion capital infusion on top of the Abu Dhabi investment in November 2007. The new management team announced a 41% dividend cut and layoffs of 4,200 employees (Reuters Wire Service 1/15/08, 9:28 am et). The market did punish the company for these results. Reuters also reported, “The shares have fallen 47 percent in the last year, compared with a 28 percent drop in the Philadelphia KBW Bank Index.”

**RECOMMENDATIONS FOR FUTURE RESEARCH**

Work remains to be done on objectively measured results of the referenced publicity, e.g., impact on market capitalization and, if given access to internal data, on recruiting, and customer acquisition and retention. It remains to be seen if the removal of Prince and the change in leadership of Citigroup will impact positively the company’s reputation.

**REFERENCES**


**RELATED ARTICLES**


CITI ETHICS APPENDIX A

Articles Listed Chronologically


Please see Appendix B for a complete chronological list of news stories during February and March 2005.

CITI ETHICS APPENDIX B

Chronological list of news stories during February and March 2005.


Munter, P., & Batchelor, C., 3/22/2005, German Prosecutor Clears
Citigroup of Bond Manipulation. *Financial Times Companies & Markets*
Section, p. 19.
Taylor, E., & Briggadike, O., 3/22/2005, Germany Won't Charge Citigroup
Pacelle, M., 3/30/2005, Citigroup Settles Defamation Suit by Property