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CBS Storm Washes Over Viacom

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As CBS News faces one of the worst public embarrassments in its history, experts say that the damage to the network's news division could be significant - and costly.

But CBS's parent company, [Viacom](#), is not expected to suffer much of a blow from the scandal over the National Guard documents that CBS News now concedes cannot be authenticated. Viacom, which grew out of a small chain of movie theaters that Sumner M. Redstone, its chairman, acquired from his father in the 1950's, stretches far beyond CBS, and the fate of its other businesses is not closely tied to the reputation of its news operation.

Viacom owns cable networks, including MTV, Nickelodeon and Showtime. The company also operates the Paramount Pictures movie studio; Simon & Schuster, the book publisher; and Infinity Broadcasting, the nation's second-largest chain of radio stations behind [Clear Channel Communications](#). It has a controlling stake in Blockbuster Video, which it is planning to spin off soon.

The television division accounted for \$1.2 billion in profit, or one-third of Viacom's \$3.6 billion operating income last year, but most of that profit came from the local TV stations it owns and from advertising generated by its prime-time entertainment and other programs.

The national news division, whose evening news program remains stuck in third place in the ratings behind NBC and ABC, generated no more than \$100 million to \$300 million in operating profit, according to one person close to the company.

Mr. Redstone, in a telephone interview last evening, acknowledged that he was




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Sumner Redstone, chairman of Viacom, with Leslie Moonves, chairman and chief executive of CBS Television and co-president of Viacom.

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concerned about recent developments. He said that neither he nor other top Viacom executives involved themselves in decisions inside CBS News.

But he added that he had been monitoring the situation while traveling to Hong Kong, and that he had been in frequent contact with Leslie Moonves, the chairman and chief executive of CBS Television and co-president of Viacom. Asked whether CBS will suffer any long-term damage, he replied: "I don't think it could negatively impact the brand."

Mr. Redstone owns more than 200 million shares of Viacom stock, worth about \$6.7 billion, and has options on another 10 million shares. According to company documents, he filed for the right to acquire up to a million of his options and sold 341,500 shares last week for a profit of \$6.8 million. The sale, officials said, was for estate tax purposes and was not related to the troubles at CBS News.

While the overall company should emerge largely unscathed, CBS News may suffer its biggest black eye, critics contend, from not admitting the error faster.

"CBS needed to do that absolutely and immediately and two weeks was too long a period to go," said Robert Passikoff, president of Brand Keys, brand and customer loyalty research consultants.

"Once there has been an error, a company has to take steps to reinforce and protect the strength of the brand," he added. "Then people will be forgiving. What the public wants is contrition and closure."

CBS News is the latest media organization to face a credibility crisis in recent years.

Both [The New York Times](#) and USA Today, which is owned by Gannett, have publicly acknowledged that one of their reporters fabricated a number of articles published by the newspapers. The [Tribune Company](#) and the [Belo Corporation](#) recently admitted that executives exaggerated circulation figures at newspapers.

A different form of scandal has swirled around Martha Stewart, the founder of [Martha Stewart Living Omnimedia](#), whose conviction for lying to government investigators about a stock trade has badly damaged her company's stock.

In coming to terms with those scandals, the companies that fared best with consumers and advertisers were fast to face their problems and establish safeguards.

"For CBS this is a body blow, but these brands are resilient," said Alex S. Jones, director of the Joan Shorenstein Center on the Press, Politics and Public Policy at Harvard.

Like Martha Stewart Living and its founder, the biggest challenge facing CBS News is that it is so closely identified with Dan Rather, its prime-time anchor.

But what damaged Ms. Stewart's company, experts said, was in part her continued insistence that she did nothing wrong. By contrast, Mr. Rather, perhaps belatedly, has now acknowledged he made a mistake.

It may have been somewhat easier to deal with the public perception of the plagiarism problems at both The Times and USA Today, said Joan Hall, an assistant professor at the American University School of Communications in Washington, because "neither former New York Times reporter Jayson Blair nor USA Today reporter Jack Kelley was well known to the American public."

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"The institutions were known," she said, "but the people were not."

By contrast, the "CBS controversy is potentially greater because Dan Rather is a person on whom people can fix their criticisms and conservatives have previously questioned his objectivity."

John Morton, a veteran newspaper analyst, notes that Gannett stock is down nearly 4 percent this year, but he points out that the drop is smaller than at other media companies.

The controversy has had little direct impact on Viacom's stock, which has tumbled, largely because of a weak advertising market, from \$43.98 at the beginning of the year to close at \$33.64 a share.

It fell 40 cents a share yesterday.

Image scandals tend to affect a company's value in the market less than problems that raise questions about its basic business operations.

Mr. Passikoff said that his study of how consumers trust various media businesses showed that The New York Times rated a high 118 in October 2002. It fell to 108 in June 2003, a month after the Blair affair became public, but bounced back to 119 at the end of March.

By contrast, at Tribune, where executives inflated circulation at both Newsday and Hoy, the Spanish-language daily, the publishers of both papers resigned within a month after the inflated numbers were revealed. Tribune stock is down nearly 20 percent this year.

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