WHITE PAPER: A WORLD OF CHANGE

Insights for Communications Success

By Richard M. Miles
John R. Kessling
Managing Partners
Acumen Strategic Communications Inc.

About this White Paper: **A WORLD OF CHANGE**

Acumen believes that a critical factor in the success of your business is the effectiveness of your communications with internal and external constituencies.

Effective communications result, in part, from accurate and timely knowledge of stakeholder perceptions and expectations. With this fundamental awareness, senior management is better able to formulate policies and execute business decisions that lead to efficient goal achievement.

However, the dynamics of today's internal and external constituencies are shifting rapidly, constantly aligning and re-aligning, while modifying and expanding the demands they make on corporate management.

Acumen's business expertise is using communications tools to help you better understand and succeed in this evolving and sometimes elusive world.

We present this white paper to help you gain insight into this environment, its perils and the promise it holds for the future of your business. It is a glimpse into a world of change where you and your company must communicate effectively — and where **Acumen** can help.

Acumen
STRATEGIC
COMMUNICATIONS INC.

A World of Change
Insights for Communications Success

Enron, HealthSouth, WorldCom, Global Crossing, Adelphia, and many other corporations have created suspicion and a lack of confidence within the minds of American shareholders. This heightened state of uneasiness is robbing even the most scrupulous CEOs of trust and the benefit-of-the-doubt they once enjoyed.

Individual investors believe failures in corporate governance are not limited to the goliaths of capitalism; almost everyone is included. Forty-six percent, of Americans sampled in The American Survey, believe that "every company" is involved in some form of corporate wrongdoing, but only a few get caught."[1]

A CNN/USA Today/Gallup Poll taken in the same time period sought public opinion on "People Who Can Be Trusted," and found that 73 percent of the respondents believe one "can't be too careful" with CEOs of large corporations. Only twenty-three percent thought "most can be trusted."[2]

Business leaders themselves are no less disheartened. John C. Bogle, the founder and former Chairman of The Vanguard Group, told a meeting of the New York Society of Security Analysts, "It seems clear that corporate governance is a key participant in the happy conspiracy in which no holds are barred in creating the rosiest possible scenario for corporate earnings. "

Bogle then added that, ""Enron is the paradigmatic failure in the modern history of corporate America…[representing] improper financial reporting, opaque financial statements, hidden liabilities, aggressive earnings guidance, grossly excessive executive compensation, happy co-conspirators, and the tragic collapse of its employee savings plan."[3]

[1] "Findings and Recommendations: Corporate Governance," The Conference Board, p16
[2] Ibid
[3] J. Bogle Remarks, "Just When We Need It Most…Is Corporate Governance Letting Us Down?" New York Society of Security Analysts, New York City, NY

As if to validate the public suspicion about American business, in the midst of the early-21st Century wave of corporate scandals, “more than 722 CEOs have rushed to have their companies re-state obviously inaccurate earning reports.”[4]

It was in this context that Goldman Sachs Chairman and Chief Executive Officer Henry Paulson told a National Press Club audience that he had “never seen confidence in American companies at such a low.”

Business Week quoted former Secretary of the Treasury and Federal Reserve Chairman Paul A. Volker as saying that he believed American investors are convulsing in a crisis of faith.[5]

The Wall Street Journal editorialized that, "Capitalism runs on confidence and the perilous state of American stocks shows [that such confidence] is in short supply."

Corporate employees share these perceptions. A recent survey of “selected U.S. industries” conducted by KPMG LLP showed that 60 percent of respondents believe that “they are observing a high level of illegal or unethical conduct on the job.” Thirty-seven percent responded that the “observed misconduct is of a serious nature.”[6]

Scrutiny on all fronts, and expanding

Because of this widespread suspicion, leaders of publicly-traded companies and their peers at privately held firms are in the cross hairs of virtually every notable legal, legislative and business oversight body in the nation. Added to this burden is a proliferation of demands by consumer, social, religious, environmental and special interests groups worldwide.

Major fiduciary entities are acting unilaterally and in concert to protect their interests and those of their stockholders. The list of aggressive participants includes The New York Stock Exchange, the SEC, the Business Roundtable, the National Association of Corporate Directors, the Conference Board, The Financial Accounting Standards Board, The American Institute of Certified Public Accountants, both houses of

[4] “A Time for Change: A time to Act. Let the Real Corporate Leaders Stand Up.” The Council of Public Relations Firms, p 2
[5] Ibid
[6] “Organizational Integrity Survey: A Summary,” KPMG, Integrity Management Services, cited in “Findings and Recommendations: Corporate Governance,” The Conference Board, p 22

Congress, and investor watchdogs such as Institutional Shareholder Services as well as two big pension funds, CALPERS and TIAA-CREF.[7]

This overwhelming, and nettlesome, intervention into American business operations is only the beginning. The levels of oversight, reporting and inspection that have grown in the last decade — and especially in the last few years — promise to become broader and deeper. Organized groups increasingly demand, and are receiving, changes in corporate behavior regarding ethics, diversity, marketplace presence, governance, human rights and labor relations, as well as in the traditional areas of finance and environmental accountability.[8]

Imperatives for Executives

In an environment where stakeholder demands have "grown exponentially over the last decade,"[9] the laws and regulations dealing with corporate performance and reporting are becoming permanent landmarks of the corporate horizon. In this altered world, executives should anticipate and plan to:

- Develop a deeper understanding of interest groups' expectations
- Improve communications and interactions with interest groups
- Increase their company's commitment of financial and human resources to achieve these two goals

Many corporations need a more thorough understanding of this changing world, its players and the rules — as well as liabilities for not adjusting to it. Executives also should realize that the resulting changes in their operations can yield economic and leadership benefits. While dozens of key questions should be asked, and thoroughly answered, those that are most significant for this brief white paper are the following:

1. Who are these people?
2. What do they want?
3. What impact will they have on my company?
4. How do I communicate with them?

[7] "A Time for Courage, A time to Act, Let the Real Corporate Leaders Stand Up," Council of Public Relations, p 2
[8] "Overview of Business and Corporate Accountability," Business for Social Responsibility, p 1
[9] Ibid, Page 1

Q1. Who are "these people?"

While economist Milton Friedman once said, "The business of business is business,"[10] we believe such a statement leads to a vision of responsibility and relationships that is confined and unrealistic in today's environment.

Assessing the role of modern corporations, The Conference Board concluded, "The 21st Century concept of 'the business of business' is built on a solid foundation of core relationships unified by trust and understanding among traditional stakeholders: employees, customers and investors. Upon this base, we add an increasing number of special interest groups that espouse various aspects of the concept of corporate social responsibility."[11]

Traditional Constituencies

Companies traditionally limited their recognition of stakeholders interested in their behavior to the classic three: employees, customers and investors. Some companies recognized opinion leaders, regulators and legislators, and others as key stakeholders, but most did not perceive how they intermingled and shared interests.

We believe that this is recognition of the changing face of corporate stakeholder relationships and the scale of corporate communications. Through words and actions, corporations must satisfy what we call "The New Business Constituency," which has replaced the traditional relationship triangle of employees, customers and investors. This is a new more complex dynamic blending those three stakeholder groups with a broad range of advocacy organizations, social activists, consumerists, labor unions, religious and social groups community organizations, governments and a host of others, all having agendas and expectations.

We refer to the New Business Constituency in the singular because its members exist and interact in one environment that both surrounds and reaches into the enterprise. Indeed, its members can be part of several groups simultaneously—an employee can also be a local government leader, or an investor can be in an activist organization.

What's more, because of new technologies and advanced communications, all members of the New Business Constituency may

10 "A Time for Change," p 1
11 "Overviews of Corporate Social Responsibility," Business for Social Responsibility, p 1

have access to essentially the same information — in Internet time. Thus, the concept of “stove piping” audiences and applying discrete communications strategies is no longer valid and potentially dangerous.

Q2. What do they want?

The members of the New Business Constituency want corporations to achieve “commercial success in ways that honor ethical values and respect people, communities, and the natural environment… In its simplest terms it is: ‘what you do, how you do it, and when and what you say.’”[12]

Thus, the organization’s corporate strategy must be socially harmonic as well as business-focused. Its behavior will be “viewed as a comprehensive set of policies, practices and programs that are integrated into business operations, supply chains and decision-making processes throughout the company — wherever the company does business, and includes responsibility for current and past actions as well as future impacts… In its broadest categories, corporate social responsibility typically includes issues related to: business ethics, community investment, environment, governance, human rights, marketplace and workplace.” [13]

Q3. What impact will they have on my company?

The range of individuals and organizations with unique and sometimes conflicting agendas presents a daunting challenge for business. But the pressure on the corporation to be responsive will only grow in the future, if for no other reason so that it may remain competitive.

Corporate operating requirements now being formulated and implemented abroad provide insight into what American corporations may confront in the years ahead. For example, the European Commission has placed the social responsibilities of corporations operating in member countries at the heart of its competitive Europe strategy, and is outlining strategies for companies, governments and civil society. This action led to creation of a European Multi-Stakeholder Forum, whose job it is to suggest avenues to embed corporate social responsibility in policy and practice region-wide. Other governmental initiatives are underway outside of the European community, notably in South Africa, Brazil and Argentina, among others.

[12] “Overview of Corporate Social Responsibility,” Business for Social Responsibility, p 1
[13] Ibid

The good news is that the impact of this drive for broader and deeper social responsibility by corporations is likely to be positive over time, based on early evidence.

A PricewaterhouseCoopers survey[14] of 1,161 chief executives in 33 countries reveals that, "the heads of multinational corporations have themselves come to the conclusion that business also needs to be concerned with its role in our increasingly global society." Seventy percent of those CEOs queried, "believe corporate social responsibility programmes actually contribute to the profitability of their companies."[15]

"The New Business Constituency"

Individuals with multiple alliances

Today, companies need to develop communications strategies recognizing that their core stakeholder groups, as well as other key audiences, may interact or align with one another and have access to virtually the same information in Internet time.

Further, corporations perceived as socially responsible appear to have increased access to capital markets. The Social Investment Forum reported that despite the extended market downturn in the early 2000s, "social investing" rose to $2.34 trillion. The primary driver: client portfolios screened for socially concerned investors, which climbed 36 percent from $1.49 trillion to $2.03 trillion in two years. "This amount accounts for nearly 12 percent of the $19.9 trillion in investment assets under professional management in the U.S." [16]

There's also evidence that reputable behavior adds to a company's value. For example, following publication of the 17th annual ranking of "America's Most Admired Companies," Yankelovich Partners joined with the editors of Fortune magazine to send an in-depth questionnaire to 26,000 Fortune subscribers who were customers, employees, suppliers, competitors and investors of 260 companies. Yankelovich asked the

[14] "Corporate Social Responsibility Gaining Higher Awareness Among CEOs," News Release, " PricewaterhouseCoopers, p 1
[15] Ibid, p 3
[16] "Overview of Corporate Social Responsibility," Business for Social Responsibility, p 5

respondents to rank companies within industry groups on behaviors they observed among the companies and their personnel.[17]

Results from the study showed that in every instance, a positive reputation, or positive corporate equity, favorably affected market valuations. "Companies with high corporate equity had 12 percent higher P/E ratios than those with low equities, which translates into a market capitalization increase of over $5 billion for the average Fortune 100 company."[18]

A DePaul University study supports these conclusions, finding that the overall financial performance of Business Ethics Best Citizen companies was significantly better than that of the remaining companies in the S&P 500 Index, based on BusinessWeek ranking[19] of total financial performance…. The [companies that were rated] Best Citizens scored ten percentile points higher than the mean ranking of the remainder of the S&P 500 companies."[20]

Q4. How do I communicate with them?

Effective business communications require a thorough examination of internal and external interests affecting your organization, a reasonable assessment of their priorities and yours, then the development and execution of a thoughtful action plan that includes ongoing success measurements.

To achieve this, **Acumen** recommends a structured approach that, in outline form, includes the following steps:

☐ Conferring with senior managers and board members to determine levels of understanding and commitment to strategic communications

☐ Assessing knowledge and opinions among internal and designated external stakeholders

[17] J.D. Bergen, "Reputation and Business Responsibility," In Good Company newsletter of Students for Responsible Business
[18] Ibid
[19] The ranking "was based on eight statistical criteria, including total return, sales growth, and profit growth over the one-year and three-year periods, as well as net profit margins and return on equity," "Overview of Corporate Social Responsibility," Business for Social Responsibility, p 3
[20] "Overview of Corporate Social Responsibility," Business for Social Responsibility, p 4

☐ Analyzing current and likely advocacy groups and other influencers your company should be prepared to encounter

☐ Examining issues your peer corporations are facing, and how they are managing their relationships

☐ Reviewing internal and external communications, programs, media, personnel and strategic plans

☐ Pinpointing the gaps between the current and ideal perceptions of all stakeholders, opinion leaders and advocacy groups

☐ Developing a strategic integrated communications plan including messages, tactics, resources and personnel needed to successfully reach out to all audiences

A word of caution: effective communications must begin with a genuine commitment to work with stakeholders in addressing and resolving the issues that are important to them. Skepticism abounds and mere lip service will not only fuel additional cynicism, but also likely backfire on companies engaged in "issues sleight of hand."

Conclusion

Acumen believes that, as The Brookings Institution wrote, as much as 70 percent of a company's valuation has its foundation in "soft" or difficult-to-quantify assets, such as brand equity and intellectual capital. We also note that five of eight criteria used to determine Fortune magazine's "Most Admired" companies relate to intangibles, and how they are perceived by a company's multitude of stakeholders.

Tangibles

- Quality of products and services
- Financial soundness
- Wise use of corporate assets

Intangibles

- Innovativeness
- Quality of management
- Long-term investment value
- Social responsibility to the community and the environment
- Ability to attract and retain talented people

In the Fortune article "The Right Stuff" author Matthew Boyle wrote, "Not only do today's Most Admired keep customers and shareholders happy, but they spend time courting employees, federal and international regulators, the media, nongovernmental organizations, corporate-governance watchdogs, retirees, suppliers, and the local communities across the globe in which they operate."

In short, they develop enlightened strategies and policies and communicate extensively and effectively with their many stakeholders, influencers and opinion leaders who can affect the successful operation of their businesses.