HB Speech
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Whatever Happened to the Good Corporate Neighbor?

There's a certain symmetry in my coming to Memphis at this late stage of my career to share with you some of my thoughts about public relations.

I was born in Memphis at the old Baptist Hospital on Madison Avenue when it was still new. I graduated from Humes High School about twenty years ahead of Elvis. Back in 1936.

My first job was at The Commercial Appeal. I worked as a copy boy when I was in high school. Gradually, I got some writing experience. The city editor let me write obituaries. There was a time when I had a telephone acquaintance with every funeral home in Memphis. To this day, I believe the best training for a career in public relations is working on a newspaper.

Memphis is also the place where I was first tested as a publicist. It was a long time ago -- the early months of 1940. I was a senior at Ole Miss. I went to Ole Miss – our younger son used to boast to his prep school friends “my old man went to Oxford” – I went to Ole Miss because I could pay my way by “stringing” for The Commercial Appeal. A “stringer” is a reporter who is paid by the column inch. I got fourteen cents a column inch for the stories the paper published, not counting headlines. Every month, I pasted my stories together end-on-end like a knotted string. I then mailed them to the paper where they were measured with a yardstick. I wrote enough to earn $60 to $75 dollars a month. Nowadays it’s hard to believe that was enough to cover my college expenses.

To get back to my first publicity assignment. Some friends at Ole Miss decided to stage a theatrical production showing off student talent – singers, dancers, comics, would-be actors and actresses, even baton twirlers. Also, the Ole Miss marching band, then as now, a wonderful attraction. A two-hour revue called “The Ole Miss Varsity Show” was clobbered together, and the Orpheum Theater booked five performances over an April weekend.

I was press agent. I had never done anything like that before. But instinctively, I knew I had to develop stories about the show. And I had to persuade the two Memphis newspapers and the four or five radio stations to give us space and time. I still have the clipping scrapbook. Every now and then when I go on a nostalgia binge, I sort of cringe and wonder about how much coverage the show got. I have to admit it helped when, a few days before the gala opening, the Mississippi Board of Trustees for Institutions of Higher Learning announced it would be a sacrilege for college students to perform on Sunday. After threatening to stop the show, they eventually backed down, but only after moving the story from the entertainment page to the front page. That was an early lesson in publicity that I never forgot.

Publicizing the Varsity Show brought me into contact with the first professional publicist I ever met. His name was Jimmy Lee. Jimmy was a reporter for The Memphis Press-Scimitar and thought he could make more money "doing publicity" for the Orpheum Theater and other local clients. There's no doubt that meeting him I was swayed from my boyhood dream of being editor of THE NEW YORK TIMES to doing what I would a few years later hear described as public relations.

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I want to talk today about the role of the corporation as a social entity and the role of public relations as a management function. To paraphrase the opening lines of Charles Dickens' great novel, "A Tale of two Cities," now is both the best of times and the worst of times to be talking about the corporation's role in society.

It's the best of times because corporations – specifically corporate behavior and governance – dominate today's news. Never before have corporations been so central to the human condition. They are mass purveyors of goods and services. They provide jobs and careers and livelihoods to a substantial fraction of the population. They play an important social role transmitting culture and values and lifestyles. They are one of the few institutions in the society that bridge the gap between the world's haves and have-nots.

But this is also a time of major negatives in the corporate world. Public and investor confidence in the corporation is at its lowest level since the advent of polling. And for good reason. The fact is, some visible corporate executives have acted despicably. Some have acted unethically. Some will be shown, as the judicial process unfolds, to have acted illegally. A sad commentary is that relatively few corporations have behaved so outrageously. A recent survey showed that more than half the CEOs of the nation's top thousand corporations took pay cuts last year. Even so, the winds of ill will have swept the entire corporate world – the total universe of the nine thousand U.S. companies whose shares are publicly traded. A recent Gallup poll showed that only 23 percent of the public trusted CEOs of large corporations. There's little comfort knowing that only 15 percent trusted car dealers.

In an essay titled "Civil Disobedience", Henry David Thoreau wrote "It is truly enough said that a corporation has no conscience; but a corporation of conscientious men is a corporation with conscience."

The obverse is equally true: A corporation of men lacking a conscience is a corporation without a conscience.

One might wonder how the performance of so few companies was able to exert such negative influence over virtually the entire corporate community. The fact is, corporate frauds have recurred year-after-year with minimal and fleeting adverse effect on the financial marketplace. To understand the recent phenomenon, one must revisit what Federal Reserve Chairman Alan Greenspan termed the “irrational exuberance” of the 90s.

Investor confidence and public approval of corporations were at all-time peaks as the 20th Century ended and the 21st Century dawned. Investors had profited from the biggest stock market boom in our nation’s history. The Dow Jones Industrial Average started the decade at 2810; ten years later, on January 14, it peaked at 11,722.98. Some investors did even better. They invested in dot.com and e-commerce stocks whose value grew ten-twenty-thirty-fold in just a few years.

A person reading the business press or watching and listening to business and finance pundits on TV got the idea that the basic laws of economics had been repealed. One could be persuaded that all business was risk free. Stock prices would rise forever despite such operational basics as negative earnings, negative cash flow and negative return on investment.

The fall came in two stages.

First, the dot.com bubble burst began the early part of 2001.

Later in the year came Enron and the meltdown of Arthur Andersen. And then Global Crossing and WorldCom and Adelphia Communications and ImClone insider trading and the tax-dodging shenanigans of Tyco's CEO and on-and-on.

Little wonder that investor confidence tanked. It tanked despite the ethical and legal behavior of hundreds of other CEOs, hundreds of other publicly-owned corporations whose stewardship over investor assets was above board.

I have tried to look for root causes that led to such widespread moral bankruptcy among corporate leaders. I have also pondered the role of public relations in the decline in public perception of major corporations. I have come up with two conclusions.

The first is that many corporations lost their sense of purpose. And that includes corporations which have operated totally within the law.

The second is that we public relations professionals either failed in our mission or were unheeded by employers and clients whose personal interests deviated from the public interest.

Let me elaborate.

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The corporation, as we know it today, is relatively new. It goes back only a couple hundred years and was created to enable multiple investors to pool capital in a manner that protected them from individual or personal liability for actions of the total enterprise. The coast-to-coast expansion of the railroads during and after the Civil War was a major impetus to the development of the corporation in the United States.

But the history of the corporation is not without its smears and stains. The corporation as a business entity was so new that there were few laws and regulations to govern its behavior. In the 19^{th} Century it became a vehicle not only for stock swindles but also for creating monopolies and restraining trade. Violence was often used to enforce the corporate will. It was in 1849 that Henry David Thoreau spoke his words for the purpose of differentiating responsible corporations from the renegades.

Public outrage against corporations – “robber barons” some of their leaders were called – peaked in the early years of the 20th Century. Their nemesis was Theodore Roosevelt, who had succeeded to the Presidency in 1901 after the assassination of William McKinley. Theodore Roosevelt was the original “trust buster” -- his Department of Justice prosecuted the first cases that broke up the monopolies. He created the Interstate Commerce Commission to regulate the railroads.

Another wave of legislation and regulation affecting corporations, especially the securities markets, provided even more oversight during the Franklin Roosevelt presidency. The Securities & Exchange Commission – today the Federal agency with greatest power over corporate behavior – came into being in 1934. From that day forward, the Federal government has been the primary watch dog overseeing corporate behavior. State governments also piled on.

The growth of public relations as a business discipline parallels the growth of the corporation. The first public relations firm was established in 1900 in Boston. During and after the breakup of the Standard Oil Trust and the Homestead steel strike, John D. Rockefeller Sr. became the most vilified businessman in history. The Rockefeller family retained Ivy Lee, a business reporter, to represent their interests to the press. In the early 20s, Edward L. Bernays set up shop and called himself a counsel on public relations. His stated objective was to help corporations gain public understanding and public support. Concurrently, major U.S. corporations began to recognize that they must gain public acceptance to accomplish their business goals. Some, including AT&T and General Motors, established their own internal public relations departments.

The “social” role of the corporation expanded exponentially during the Franklin Roosevelt administration. The early years of the 20^{th} Century saw the enactment and enforcement of child labor laws, health and safety workplace standards, regulations governing the production of food and drugs. But starting with the passage of the Social Security Act in 1934, corporations became the agent of government responsible for collecting employees’ contributions to their retirement program. This tax collecting function expanded many-fold when Congress passed the pay-as-you-go withholding tax bill in the early 40s. This made corporations the nation’s largest tax collector.

A further manifestation of the expanded social role of the corporation in the lives of its employees occurred with hospitalization and major medical insurance. This employee benefit came about when the wartime price and wage freeze prevented labor unions from negotiating wage increases for their members. Instead, the United Auto

Workers bargained for health benefits. Hospital and major medical coverage soon became routine for almost all employers.

In fact, I remember John Hill telling me that his firm, Hill & Knowlton, survived the depression by representing corporations that opposed New Deal legislation and regulation.

American business leadership evolved from it's "public be damned" attitude of the late 19th Century to recognizing that the corporation had become a social entity as well. Many corporate executives subscribed to the notion that a CEO had to strike a balance between multiple stakeholders. They realized that their companies had to provide steady jobs for employees. They had to develop, manufacture and market quality products and give customers good service. They had to participate in and contribute to their communities. And, of course, they had to earn a satisfactory return for their owners, the investors who held their stock. Many also believed they ought to pay shareowners a dividend.

The corporate mission began to change as we entered the 90s. Actually, the change had a long gestation period. I remember talking with the chief financial officer of a large steel company about 1975. He described how he was dividing his company's billion dollar pension fund in four parts, each to be entrusted to a different money manager. Every year the one with the poorest returns would by replaced by a new manager. Ten years later, the same CFO bemoaned the pressures on corporate management to deliver increased earnings quarter-to-quarter, year-to-year. I also remember the investment banker-driven takeovers of "underperforming" companies back in the 80s. Generous loans financed buyouts at premium prices and set into motion a process that transformed the corporation into a mechanism whose sole (and frequently loudly stated) objective was "maximizing shareowner value."

This, in effect, changed the basic nature of the corporation that once considered being described as “a good corporate neighbor” its greatest accolade. Abetted by the computer and the new information age, CFOs assumed an activist role establishing a Damon and Pythias relationship with the CEO as stewards of shareowner equity. The magic phrase “maximizing shareowner value” plastered the covers of annual reports and was a rallying point in talks to financial analysts and at annual meetings of shareowners.

Those who delivered on their promise of constant earnings gains were well rewarded. Shareowners were repeatedly reminded that the interests of management and the interests of shareowners were in total sync. Compared to earlier times, executive ownership of stock – a result of newly instituted stock option plans – soared. And so did CEO compensation. The once “traditional” ratio of CEO earnings as a multiple of the annual wages of the average hourly employee jumped from about 50 to as much as 500.

On the other hand, the price extracted for failure to deliver has been painful. The stock tumbles, investors dump the stock and, let it happen again, a search firm is hired to look for another CEO – maybe, too, a new CFO. Nor is the pressure limited to the CEO and CFO. It's felt at business unit levels and at the brand management level. Recent reports of corporate misconduct are testament that it has distorted the corporation's moral compass.

I am an optimist when it comes to American corporations. I don't know of another entity in the entire social structure that self-corrects so quickly when its self-interest is threatened. That's why I believe there will be a collective return to the values that originally attracted the capital that gave this great country the business and industrial leadership it has enjoyed during the past century. I believe there will be a happy ending. I believe corporations will once more treasure the identity of being "a good corporate neighbor."

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Now, I would like to talk about the role of the public relations professional in the context of the large multinational corporation. I owe it to you to say my remarks may have a familiar ring. To tell the truth, I am simply repeating a portion of a speech I made 30 years ago (come March 20). The audience was the Graduate School of Business at Columbia University and the title of my talk was “Social Responsibility or ‘Telescopic Philanthropy’: The Choice is Ours.” I ask one indulgence. Please forgive the exclusive use of the masculine pronouns “he/his/him.” After all this was 30 years ago!

….the public relations professional doing his job for the modern corporation fulfills a role that may be divided into four parts.

First, he serves as a sensor (that’s spelled s-e-n-s-o-r) – a sensor of social change. He perceives those rumblings at the heart of the society that auger good or ill will for his corporation. In a way, he is like a radar man. He gives early warning. And, after detecting the yearnings and stirrings, he interprets the signals for the management team.

His perceptions, of course, cannot be founded on intuitive judgments and guesswork. He must be objective and analytical; he can bring the insights of the social sciences to bear upon his conclusions. In analyzing change, he must have a strong sense of reality. He must identify the situation as it really is. Not as he imagines it to be. He must be able to separate enduring social changes from current fads.

Let me give an example of what I mean. When the subject of automation first came up, it was taken very seriously. Yet the social consequences of automation, while great, have not really shaken up the corporation. On the other hand, when Women's Lib first hit the streets, it was not really taken very seriously. Yet the consequences of the

Women's Lib movement have had loud repercussions in many a hallowed corporate hall. It is, as the example indicates, the job of the public relations executive to make distinctions and to say to his management: "Look, you may think this stuff is nonsense, but it is a potentially powerful development. So let's start to make plans."

It's also the job of the public relations executive as corporate sensor to keep the attention of his management focused on the problem. How often have we heard businessmen who should know better claim that the critics of business are trying "to tear the system down." Now I have no doubt we have our revolutionaries, but the current mood isn't so much one of insurrection as reform. Corporate managers have enough to do without going through the enervating motions of setting up straw men so they can knock them down.

Consider Ralph Nader – who hardly qualifies as the businessman's best friend. Even Nader declares that his objectives are not to destroy the system but to make it work within the context of a free market economy. Nader is basically a populist and reformer. He is not making a fundamental attack on capitalism or democracy.

The second role which the public relations man must fulfill is that of corporate conscience. I trust you will not infer from this that a person must be a public relations professional to be sensitive – or that public relations people behave in ways that are either more moral and ethical or more in the public interest than executives with different titles. There are others in the corporate hierarchy who may possess the same amount or even more of these attributes than the individuals responsible for public relations. But the fact is that being the professional corporate conscience is not part of the job description of other executives. It <u>is</u> part of the job description of the chief public relations officer.

The third major role of the public relations professional is that of communicator. The tendency is to think that communications is his only role. That is hardly the case although it is an important function.

Communications relating to social issues moves in two directions – internally and externally. Most often, the emphasis is placed on external communications. Although external communications is important, it is, in many respects, secondary to and dependent upon an effective internal communication program. Let's not forget the lesson of Mrs. Jellyby and focus on the distant problem before we resolve the one at home.

What happens when a corporation responds to a social issue? Take minority employment as an example, since it is a problem faced by almost every corporation in the United States. Let's suppose that a company adopts a policy of representational employment. Representational employment is founded on the premise that if a certain minority group – say blacks – comprises a certain proportion of the population – say 11 percent – then, all things being equal, members of that minority group should comprise 11 percent of the company's work force. What's more members of that minority group should be found at all levels of employment from the assembly line to the executive suite.

Now, it's one thing to adopt a policy of that nature – and a number of companies have. But it's quite another thing to make it work – especially in a corporation that has several locations. The first task is to convince employees that the policy is not make-believe. The people who must make an equal opportunity policy work are not at corporate headquarters. Most likely than not they are in the field offices, in the divisions, and in the boondocks. They are in personnel: the interviewers, recruiters, managers and so forth. If they don't believe the corporation means business, then nothing will happen.

Then there's the matter of informing present employees that as of a certain Monday morning they will be working alongside a newly-eligible group of employees as a result of the corporation's new policies.

Internal communications must do more than tell or inform. Its primary function is to bring about understanding. The greater the sensitivity of the issue, the more important the need to communicate effectively. The internal communications program must make available to all affected employees the information that will enable them to understand not only what is happening and what they are expected to do about it, but why the new policies have been adopted. And, or course, there must be ample continuing communication to indicate how the program is progressing.

The success of any new policy, no mater how well-intentioned, will depend to some considerable degree upon how well the corporation has handled its internal communications. Indeed, we can't even think about communicating this information outside the corporation until the policy has taken root and is working.

Communicating with the public outside the corporation is an equally difficult undertaking. The problem for the public relations man is to convince the public that the corporation is, indeed, being responsive. Critics on the outside looking in tend to question a corporation's sincerity. All too often they mistake a real and genuine response for a seeming response. When a corporation asks for time to make an adjustment, the critics declare that the company is merely stalling in the hope that it won't have to act at all.

The fact is, as we have noted, that the corporation is often slow to react. It's that kind of a creature. It's easy enough for the chief executive officer to issue a public statement that literally reverses a long-standing policy overnight. But it's just as difficult for the chief executive to mandate change as it is for the President of the United States, on certain matters, to mandate change. Policy changes are not enough.

If the corporation informs the public that the company has a new policy, the public may very well respond:

“So what! We’re not interested in knowing about policy changes! We’re interested in substantive acts. What have you really done?”

And if the corporation does not inform the public that it has, in fact, changed its policies, the public can accuse it of failing to take action.

The problem of external communications, therefore, becomes quite tricky. It is impossible to cover the details of public relations techniques within the scope of this speech. It is sufficient to point to the difficulties and to indicate that the public relations executive must convince the public that his corporation is responsive, that it is taking actions that exceed mere policy statements, and that genuine progress is being made.

The fourth function of the public relations professional is to serve as corporate monitor. I am tempted to use the word ombudsman here, for I think it is in the spirit of an ombudsman that the public relations officer should regard his job. Obviously, he can’t be an ombudsman in the strictest sense of the word. But since public relations is involved with public issues, there is a need for constant monitoring of corporate policies and programs to make sure that they do, indeed, match public expectations. If the programs are not functioning or if they fall short of expectations, it is his job to agitate for new programs and new policies. It seems to me quite natural for the public relations practitioner to adopt this posture. If he fails to do so, he fails to live up to the requirements of his job.

Perhaps what we are saying is that social accountability is just another management art that corporations are going to have to learn. In the long run, the corporation which does the best job of managing its operations will also do the best job of adapting to social needs.

That was my speech in February 1954.

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Let me quickly summarize and, in so doing, try to connect the recent massive loss in investor confidence and the role of the public relations professional.

At a time when most large corporations followed both the spirit and the letter of the law, a highly visible few others have operated at the margin and some even beyond.

Ostensibly both the good guys and the bad guys were served by public relations professionals. But we must understand that the role of senior public relations officers varies from one company to another. In some, he/she who holds the top public relations (or, as some put it, communications) job has both input and influence with the CEO. At other corporations, senior public relations officers are more remote from the policy and decision-making process.

But here's an interesting point. While the investigations are still at an early stage, it has been gratifying to me that not a single public relations professional has been cited for falsifying information or for otherwise misleading investors, fellow employees, the government or the public.

To say that they – the public relations professionals in those miscreant companies – didn't know that misdeeds were being perpetrated by those with other job titles may, of course, signal a critical deficiency – but that's the subject of another speech. The fact is, to date there is no evidence that public relations people were directly involved in the reprehensible behavior that has caused so much pain to so many in the corporate community. The deplorable behavior of some corporate executives was no "spin" -- it was, unfortunately, for real.

On the other hand, I believe all of us in senior public relations positions bear some measure of culpability in allowing "maximizing shareowner value" to gain traction as the primary mission of the corporation. Over the past ten years – as we enjoyed the greatest economic boom in world history and the attendant ever increasing share prices – I am not aware of any loudly voiced cautions reminding our bosses of the corporation's obligations to multiple stakeholders.

All that aside, let me confess that I am an optimist when I ponder the future of corporations and corporate governance. I know of no other institution in our society that has such resilience. The fact is – and always was --- that corporations know how to adjust to real world conditions.

Sure, corporations can expect more government regulation and more restrictive legislation. And that may be a good thing as corporations get ever larger and ever more powerful.

But I believe that, even as I speak, corporations are undergoing a self-correction process that more closely accords with the public interest.

I believe, too, that public relations executives are fulfilling the role I outlined for them thirty years ago in resurrecting “the good corporate neighbor” and returning the corporation to its once-esteemed role in society.

Our challenge is to be up to the task.

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