EIGHTH EDITION

CORPORATE COMMUNICATION

McGraw Hill

Paul A. Argenti

Corporate Communication

Eighth Edition

Paul A. Argenti
The Tuck School of Business at Dartmouth

McGraw Hill

CORPORATE COMMUNICATION, EIGHTH EDITION

Published by McGraw Hill LLC, 1325 Avenue of the Americas, New York, NY 10019.

This book is printed on acid-free paper.

1 2 3 4 5 6 7 8 9 LCR 26 25 24 23 22 21

ISBN 978-1-264-33026-3 (bound edition)
MHID 1-264-33026-X (bound edition)
ISBN 978-1-265-48182-7 (loose-leaf edition)
MHID 1-265-48182-2 (loose-leaf edition)

Portfolio Manager: *Anke Weekes*
Product Development Manager: *Michele Janicek*
Marketing Manager: *Lisa Granger*
Content Project Managers: *Melissa M. Leick, Katie Reuter*
Buyer: *Susan K. Culbertson*
Content Licensing Specialist: *Carrie Burger*
Cover Image: *Ferbies/Shutterstock*
Compositor: *Aptara®, Inc.*

Library of Congress Cataloging-in-Publication Data

Names: Argenti, Paul A., author.
Title: Corporate communication / Paul A. Argenti.
Description: Eighth edition. | New York, NY : McGraw Hill Education, [2023] | Includes bibliographical references and index.
Identifiers: LCCN 2021049897 (print) | LCCN 2021049898 (ebook) | ISBN 9781264330263 (hardcover ; alk. paper) | ISBN 9781265481827 (spiral bound ; alk. paper) | ISBN 9781265485047 (ebook) | ISBN 9781265476465 (ebook other)
Subjects: LCSH: Communication in management. | Communication in organizations.
Classification: LCC HD30.3 .A73 2022 (print) | LCC HD30.3 (ebook) | DDC 658.4/5–dc23
LC record available at https://lccn.loc.gov/2021049897
LC ebook record available at https://lccn.loc.gov/2021049898

mheducation.com/highered

For my grandchildren, Amalia, Helen, and Luca.
Papa loves you more than you will ever know.

Preface to the Eighth Edition

This book grows out of more than 40 years of work developing the field of study referred to in this book as *corporate communication*. Although the term itself is not new, the notion of it as a functional area of management equal in importance to finance, marketing, human resources (HR), and information technology (IT) is more recent. In the past 40 years, senior managers at a growing number of companies have come to realize the importance of an integrated communication function.

In this introduction, I would like to talk a bit more about my expertise, what this book is all about, and why I think everyone involved in organizations today need to know about this important discipline.

Author's Expertise

For the past 40 years, I have been a professor of management and corporate communication at the Tuck School of Business at Dartmouth. Prior to that, I taught at the Columbia and Harvard Business Schools.

The tradition of teaching communication has been a long one at Tuck, but as at most schools, the focus was on skills development, including primarily speaking and writing. The first development in the evolution of this field was an interest among businesspeople in how to deal with the media. Because this requirement mostly involved applying oral presentation skills in another setting, the faculty teaching communication were a logical choice for taking on this new task.

So when I began teaching the first management communication course at Tuck in 1981, I was asked to include a component on dealing with the media and handling crises. I became interested in this topic through my study of marketing at Columbia and had already written a case on the subject, which appeared in earlier editions of this book.

Over the years, my interest in the subject grew beyond how companies deal with the media to include how they deal with *all* communication problems. As I wrote more case studies on the subject and worked with managers inside companies, I saw the need for a more integrated function. That's because most companies were conducting communication activities in a highly decentralized way.

For example, the employee communication function at Hewlett-Packard (HP) in the mid-1980s was in the HR department, where it had always been, when I wrote a case on how HP dealt with voluntary severance and early retirement programs. As I looked at other companies, I found similarities to HP. Yet the people in those various HR departments were doing exactly the same thing internally that a communication specialist in the public relations (PR) department was doing for the external audience—sending a specific company message to a specific audience.

The same was true of the investor relations (IR) functions, which typically resided exclusively in the finance department in most companies until the 1990s. Why? Because the chief financial officer was the one who knew the most about the company's financial performance and historically had been responsible for developing the annual report. Communication was seen as a vehicle for getting that information out rather than as a function in itself.

Again, as I worked with companies to develop new characters and brand, I found marketing people involved because they had traditionally dealt with brand and image in the context of products and services. Yet those marketing experts didn't always know what was being communicated to the press or to securities analysts by their counterparts in other functional areas.

These experiences led me to believe that corporations and other organizations, from universities to churches to law firms, could do a much better job of communicating if they integrated all communication activities under one umbrella. That was the theory at least, but I could find precious little evidence in practice.

Then, in 1990, I was fortunate enough to be given a consulting assignment that allowed me to put into practice what I had been talking about in theory for many years. I received a call from the chairman and chief executive officer of a major corporation after my picture appeared on the front page of *The New York Times* Sunday business section in an article about how professors were teaching business students about dealing with the media.

Ostensibly, the chairman's call was about how his company could get more credit for the great things it was doing. Specifically, he wanted to know if I had a "silver bullet." My silver bullet, as it turned out, was the development of a new corporate communication function for the company.

This company, like most, had let communications decentralize into a variety of other functional areas over the years, with the predictable result: no integration. The media relations people were saying one thing, the investor relations department was saying another; the marketing team was developing communication strategies for the outside, the human resources department for the inside.

No one except the chairman, who sat at the top of this $30 billion organization, could see the big picture, and none of those intimately involved with the various activities had an inside track on the overall strategy for the firm. Over the next year and a half, the chairman and I came up with the first integrated communication function that had all the different subsets I had tried unsuccessfully to bring together at other companies and even at my own university.

We changed everything—from the company's image with customers to its relationship with securities analysts on Wall Street. Today, this company has one totally integrated communication function. This book explains what all the component parts of that function are all about.

What Is This Book About?

Chapter 1, "The Changing Environment for Business," provides a context for the rest of the book. It describes changes in the environment for business that have taken place over the past 100 years, with particular emphasis on this past decade and its implications for corporate communication. Companies must contend with two seemingly at-odds phenomena these days: an all-time low trust in corporations and a seemingly all-time high in the expectation that companies speak out on topics of social justice and the broader impact on the world. The shifting perspective on the purpose of a company has had broad implications not just for the structure of the communications function but also for corporate strategy and mission more generally.

In the Redwood Health System case, we examine how one company had to contend with the challenges of a changing of the guard, ushering in new leadership with a new company mission intended to match the challenges of the day.

Chapter 2, "Communicating Strategically," explains how companies need to use a strategic approach to communications. In the past, most communication activities were dealt with reactively as organizations responded to events in the world around them. With the framework for strategic communication provided in this chapter, companies can proactively craft communications tailored to their constituencies and measure their success based on constituency responses.

In the Carsen Molding case, we find an example of a manager who failed to use a strategic approach to communication in a rapidly changing corporate environment.

In Chapter 3, "An Overview of the Corporate Communication Function," we take a look at the evolution of the corporate communication function and some of the different ways it can be structured within organizations. This chapter also describes each of the subfunctions that should be included in the ideal corporate communication department.

The John Deere case provides an excellent example of how a company evolved its communication function to better match with modern demands.

Chapter 4, "Corporate Brand and Reputation," describes the most fundamental function of a corporate communication department: to reflect the reality of the firm itself through control of its brand and ultimately its reputation. This chapter places particular emphasis on the manner in which the digital world, and in particular social media, has changed the way in which corporations can manage these foundational elements.

The case for this chapter allows students to examine the challenges of maintaining a stronghold on brand and reputation through the United Airlines disaster of 2017 when a passenger was violently dragged off a flight.

In Chapter 5, "Corporate Responsibility," we see how companies try to do well by doing good, manage the so-called triple bottom line, and deal with increasing demands from antagonists and pressure groups.

The Starbucks Coffee Company case reveals how one company balanced its responsibilities to its customers with demands from a nongovernmental organization (NGO) to improve its sourcing.

In Chapter 6, "Media Relations," we look at how today's corporate communications function has evolved from the "press release factory" model to a more sophisticated approach of building relationships with both traditional and new media before having a specific story to sell them and targeting the appropriate distribution channel for different kinds of stories.

The Adolph Coors Company serves as our case in point for this chapter. In this classic case, which I wrote for the first edition, we see how this company dealt with the formidable *60 Minutes* when it approached Coors with a controversial story idea.

One of the most important functions within corporate communication deals with an internal rather than an external constituency: employees. In Chapter 7, "Internal Communication," we look at employee communications' migration away from the HR area toward a function that is more connected with senior management and overall company strategy.

The Go Travel case explores one company's attempt to deal with voluntary severance and outplacement issues related to layoffs.

In Chapter 8, "Investor Relations," we see how companies use communication strategies to deal with analysts, shareholders, and other important constituencies. In the past, this communication subfunction often was handled by managers with excellent financial skills and mediocre communication skills. Today, as IR professionals interact regularly with the media and need to explain nonfinancial information to investors, strong communication skills are equally critical to a solid financial background.

Our case for this chapter, Steelcase, Inc., examines how an IR function was built at that company.

Chapter 9 covers government relations. The business environment historically has fluctuated between periods of relatively less regulation and relatively more, but government relations is always a consideration for companies, whether at the local, state, federal, or international level.

The Disney case provides an example of how a large corporation dealt with challenges from government and local communities in Virginia as it tried to open an historical theme park.

Organizations inevitably will have to deal with some kind of crisis. In Chapter 10, "Crisis Communications," we look at how companies can prepare for the unexpected and provide examples of both good and poor crisis communications, as well as practical steps to creating and implementing crisis communication plans.

Our case at the end of this chapter focuses on the *Costa Concordia* Crisis, in which Carnival Cruises tried to navigate the challenges of dealing with the largest cruise line sinking in modern history.

What Is New to the Eighth Edition?

The eighth edition of *Corporate Communication* reflects valuable feedback received from both users and reviewers of the previous editions. In addition to new research findings and new examples to illustrate the latest economic, social, political, and corporate trends, changes in this edition include the following:

- New case and case questions.
- Expanded coverage of the history of communication theory.

- Additional discussion of the impact and role of social media and digital communications.
- Additional recommendations for crisis communication.
- Timely analysis of the challenges that companies are facing today in this time of increased consumer expectation that companies take a stand of the major challenges society faces today.

Why Is Corporate Communication So Important Today?

Every functional area, at one time or another, was the newest and most important. But in the twenty-first century, the importance of communication is obvious to virtually everyone. Why?

First, we live in a more sophisticated era in terms of communication. Information travels at lightning speed from one side of the world to another as a result of digital communications and social media.

Second, the general public is more sophisticated in its approach to organizations than it has been in the past. People tend to be more educated about issues and more skeptical of corporate intentions. Moreover, consumers and community members affected by corporations are more frequently and more vocally stating their opinions on company actions—opinions that are quickly amplified in the digital world. Companies, it seems, most contend with the opinions of nearly everyone.

Third, information comes to us in more beautiful packages than it did before. Slick social media design and easy user interfaces are table stakes at this point from the perspective of most consumers. The department store experience has been replaced by the direct-to-consumer trend, and a few "flagship stores" are now expected to offer immersive experiences as opposed to serving as purely points of sale. The bar is high for a company's message to stand out in this environment.

Fourth, organizations have become inherently more complex. Companies in earlier times (and the same is true even today for very small organizations) were small enough that they could get by with much less sophisticated communications activities. Often, one person could perform many different functions at one time. But in organizations with thousands of employees throughout the world, it is much more difficult to keep track of all the different pieces that make up a coherent communication strategy.

This book describes not only what is happening in an era of strategic communication, but also what companies can do to stay one step ahead of the competition. By creating an integrated corporate communication system, organizations will be able to face the next decades with the strategies and tools that few companies in the world have at their fingertips.

When working on the introduction for the last edition of this text, I wrote that I had hope that managers would soon come to realize the importance of an integrated, strategic communication function. While much progress has been made in giving communications an official seat at the strategic table, the function still has a long ways to go not only in terms of full appreciation of its importance from all important decision makers at most companies, but also in terms of learning how to grapple with the nuances of a much more integrated world, where nearly everyone can communicate with everyone else. Most likely, the field will continue to need to evolve as new challenges, and new opportunities, arise. Along the way, I hope you enjoy reading about this exciting field as much as I have enjoyed chronicling its development and thinking about its future.

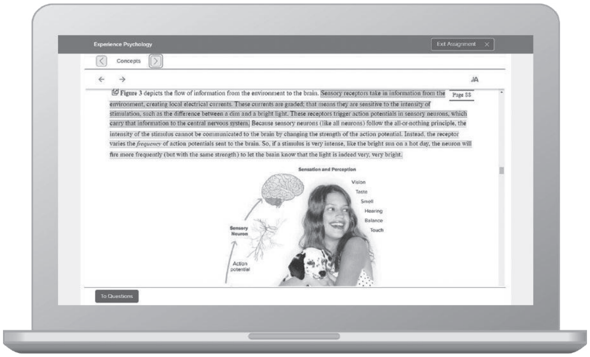
Mc Graw Hill connect®

Instructors: Student Success Starts with You

Tools to enhance your unique voice

Want to build your own course? No problem. Prefer to use an OLC-aligned, prebuilt course? Easy. Want to make changes throughout the semester? Sure. And you'll save time with Connect's auto-grading too.

65%
Less Time Grading



Laptop: McGraw Hill; Woman/dog: George Doyle/Getty Images

Study made personal

Incorporate adaptive study resources like SmartBook® 2.0 into your course and help your students be better prepared in less time. Learn more about the powerful personalized learning experience available in SmartBook 2.0 at **www.mheducation.com/highered/connect/smartbook**

Affordable solutions, added value

Make technology work for you with LMS integration for single sign-on access, mobile access to the digital textbook, and reports to quickly show you how each of your students is doing. And with our Inclusive Access program you can provide all these tools at a discount to your students. Ask your McGraw Hill representative for more information.

Padlock: Jobalou/Getty Images

Solutions for your challenges

A product isn't a solution. Real solutions are affordable, reliable, and come with training and ongoing support when you need it and how you want it. Visit **www.supportateverystep.com** for videos and resources both you and your students can use throughout the semester.

Checkmark: Jobalou/Getty Images

SUPPORT AT every step

Students: Get Learning that Fits You

Effective tools for efficient studying

Connect is designed to help you be more productive with simple, flexible, intuitive tools that maximize your study time and meet your individual learning needs. Get learning that works for you with Connect.

Study anytime, anywhere

Download the free ReadAnywhere app and access your online eBook, SmartBook 2.0, or Adaptive Learning Assignments when it's convenient, even if you're offline. And since the app automatically syncs with your Connect account, all of your work is available every time you open it. Find out more at **www.mheducation.com/readanywhere**

"I really liked this app—it made it easy to study when you don't have your text-book in front of you."

- Jordan Cunningham, Eastern Washington University

Calendar: owattaphotos/Getty Images

Everything you need in one place

Your Connect course has everything you need—whether reading on your digital eBook or completing assignments for class, Connect makes it easy to get your work done.

Learning for everyone

McGraw Hill works directly with Accessibility Services Departments and faculty to meet the learning needs of all students. Please contact your Accessibility Services Office and ask them to email accessibility@mheducation.com, or visit **www.mheducation.com/about/accessibility** for more information.

Top: Jenner Images/Getty Images, Left: Hero Images/Getty Images, Right: Hero Images/Getty Images

A Note on the Case Method

Throughout this book, you will find cases or examples of company situations that typically relate to material covered in each of the chapters.

What Are Cases?

Cases are much like short stories, in that they present a slice of life. Unlike their fictional counterparts, however, cases are usually about real people, organizations, and problems (even though the names may sometimes be disguised for proprietary reasons). Thus, a reader has an opportunity to participate in the real decisions that managers had to make on a variety of real problems.

The technique of using actual business situations as an educational and analytical instrument began at Harvard in the 1920s, but the use of a "case" as a method of educating students began much earlier. Centuries ago, students learned law by studying past legal cases and medicine through the use of clinical work.

Unlike textbooks and lectures, the case method of instruction does not present a structured body of knowledge. This approach often proves frustrating to students who may be used to more traditional teaching methods. For example, cases are frequently ambiguous and imprecise, which can easily confuse a neophyte. This complexity, however, represents what practitioners usually face when making decisions.

In cases, as in life, problems can be solved in a variety of ways. Sometimes one way seems better than others. Even if a perfect solution exists, however, the company may have difficulty implementing it. You also may find that you have come up with a completely different solution to the problem than another student has. Try to forget the notion of finding an "answer" to the problem. The goal in using this method is not to develop a set of correct approaches or right answers, but rather to involve you in the active process of recognizing and solving general management problems.

In class, you will represent the decision maker (usually an executive) in a discussion that is guided by the professor. The professor may suggest ideas from time to time or provide structure to ensure that students cover major issues, but each student's insight and analytical prowess is displayed in this context. Often, a professor will play devil's advocate or pursue an unusual line of reasoning to get students to see the complexities of a particular situation. As a teaching device, the case method relies on participation rather than passive learning.

Although cases come in all shapes and sizes, two categories define the scope of most cases: evaluative and problematic. An evaluative case presents the reader with a description of a company's actions. The purpose of an analysis is thus to evaluate what management has done and then to determine whether the actions were well founded.

Problem cases, which are far more common, describe a specific problem a manager faces, such as whether to launch a new corporate advertising program, choose one method of handling the media over another, or even choose one form of communication rather than another. Such problems call for development of alternative strategies, leading to a specific recommendation.

Case Preparation

No matter what type of case you're dealing with, a common approach will help you prepare cases before you have time to develop what will eventually become your own style. In time, you will no doubt find a method that works well and proves more suitable to you. Regardless of the approach, a thorough analysis requires a great deal of effort.

Begin with a quick reading of the case. This read-through gives you a sense of the whole rather than what often can appear as a dazzling array of parts if you start by analyzing each section in detail. You should extract a *sense* of the organization, some impressions of what *could be* the problem, and a working knowledge of the amount and importance of information presented in the case.

A more careful second reading of the case will allow you to begin the critical process of analyzing business problems and solving them. What you should hope to cull from this analysis follows.

Problem Definition

First, you must establish a specific definition of the problem or problems. Although this definition may be clearly stated in the case, usually problem definition is a crucial first step in the analysis. You need to go beyond simple problem definition and look for symptoms as well. For example, as part of the analysis, you might wonder why or how the defined problem has developed in the company. Avoid, however, a repetition of case facts or a historical perspective. Assume that your reader has all the facts that you do and choose reasoning that will serve to strengthen, rather than bloat, your problem definition.

Company Objectives

Second, once you have defined the problem, place it within the context of management's objectives. How does the problem look in this light? Do the objectives make sense given the problems facing management?

In some cases, objectives are defined explicitly, such as "increase stock price by 10 percent this year." If the problem in the case proves to be that the company's investor relations function is a disaster, this objective is probably overly optimistic. Goals can be more general as well: "Change from a centralized to a decentralized communication organization in five years." In this instance, a centralized department with independent managers at the divisional level has a good chance of meeting its objectives.

Data Analysis

Third, you next need to analyze information presented in the case as a way of establishing its significance. Often, this material appears in exhibits, but you also will find it stated within the case as fact or opinion. Remember to avoid blind acceptance of the data, no matter where they appear. As in the real world, information presented in the case may not be reliable or relevant, but you may find that if you manipulate or combine the data, they ultimately will prove valuable to your analysis. Given the time constraints you will always be under in case analysis and in business, you should avoid a natural tendency to spend more time than you can really afford analyzing data. Try to find a compromise between little or no data analysis and endless number crunching.

Alternative Strategies and Recommendations

Fourth, after you have defined the problem, identified company objectives, and analyzed relevant data, you are ready to present viable alternative strategies. Be sure the alternatives are realistic for the company under discussion, given management's objectives. In addition, you must consider the implications of each alternative for the company and management.

Once you have developed two or three viable alternative solutions, you are ready to make a recommendation for future action. Naturally, you will want to support the recommendation with relevant information from your analysis. This final step completes your case analysis, but you must then take the next step and explore ways to communicate all the information to your reader or listener.

Cases in the Real World

Here are some further thoughts to help you distinguish a case from a real situation: Despite the hours of research time and reams of information amassed by the case writer, he or she must ultimately *choose* which information to present. Thus, you end up with a package of information in writing. Obviously, information does not come to you in one piece in business. A manager may have garnered the information through discussions, documents, reports, websites, and other means. The timing also will be spread out over a longer period than in a case.

Also, given the necessary selectivity of the case writer, you can be sure a specific teaching objective helped focus the selection of information. In reality, the "case" may have implications for several different areas of a business.

Because a case takes place within a particular period of time, it differs in another important way from management problems. These tend to go on and change as new information comes to light. A manager can solve some of the problems now, search for more information, and decide more carefully later on what is best for a given situation. You, on the other hand, must take one stand now and forever.

Finally, case analyses differ from the realities of management in that students do not have responsibility for implementing decisions. Nor do they suffer the consequences if their decision proves untenable. You should not assume that this characteristic removes you from any responsibility. On the contrary, the class (in a discussion) or your professor will be searching for the kind of critical analysis that makes for excellence in corporate communication.

Acknowledgments

Without the help and support of the Tuck School at Dartmouth, I could not have completed this book. Over the past 40 years, I have been given funds to write cases and conduct research as well as time to work on the material in this book. I am particularly grateful to Dick West for initially investing in my career here at Tuck and encouraging me to develop a new area of study, and to Paul Danos and Bob Hansen for their support over a period of two decades. I would also like to thank Matt Slaughter and Brian Tomlin for their support more recently.

I also must thank my other friends and colleagues at Tuck who first made me sit down and finally produce a text after years of collecting materials and thoughts in files and boxes: specifically, the late John Shank. The International University of Japan also deserves credit for providing me with the contemplative setting I needed to write the first edition of this book.

Many clients helped me to test the ideas I have developed over more than 40 years, but I am particularly indebted to Joseph Antonini, former chair and chief executive officer of Kmart, for allowing me to think creatively about the possibilities for a unified corporate communication function. I also would like to thank the late Jim Donahue, former head of learning, and Andy Sigler, formerly chairman and CEO, both of Champion International, for allowing me to test new ideas with top managers at their company; Michael Sneed, Chief Communication Officer at Johnson & Johnson, for his input on Chapter 3; Maura Downing, VP of Global Brand Management and Corporate Communications at John Deere, for serving as the basis of our newest case for Chapter 3; Greg Efthimiou for his permission to use the Disney case in Chapter 9; and Emily Maine, of McKinsey & Company, for her brand management research help. David McCourt, former chairman and CEO of RCN, also allowed me to work on developing a corporate communication function in his company. In addition, I thank my many colleagues at Goldman Sachs, where I was fortunate to work as a consultant for more than eight years, and to Peter Verrengia, my dear friend Suzanne Klotz, and all of my colleagues at Fleishman Hillard for their support over an eight-year period.

I am indebted as well to the students I have taught, especially at Tuck, but also at Erasmus University, Singapore Management University, Hanoi School of Business, the International University of Japan, the Helsinki School of Economics, Columbia Business School, and Harvard Business School. They have tested these ideas in their fertile minds and given me inspiration for coming up with new ways of thinking about communications.

Many research assistants helped me with this project over the years, but I am particularly grateful to Christine Keen, Patricia Gordon, Mary Tatman, Adi Herzberg, Thea Haley Stocker, Kimberley Tait, Abbey Nova, Suzanne Klotz, Courtney Barnes, Alicia Korney, Alina Everett, Genoa Terheggen, Alexandra Angelo, Katie Rosenberg, Lenore Feder, Jordan Fleet, Kelly Sennatt, Joanie Taylor, Andrew Miller, Avanti Maluste, Cassandra Harrington, and Georgia Aarons for their incredible help with previous editions. I would also like to thank my longtime former academic assistant at Tuck, Annette Lyman, and my current assistant Jessica Osgood for their help with previous editions as well as this one. But the person I owe the greatest thanks to for the eighth edition is Anne Bozik, T21. I would not have been able to complete this task without her, and the book is so much better because of the countless hours she spent on this project. I cannot imagine having a better team in place to work on a project like this.

The reviewers who helped with the eighth edition also deserve special thanks for their helpful comments and advice:

Irv Shenkler
NYU Stern School of Business

Linda Lopez
Baruch College CUNY

Donald K. Wright
Boston University

James Scofield O'Rourke, IV
University of Notre Dame

I also wish to thank the reviewers from the previous editions who made this book better through their honesty and input:

Bill McPherson
Indiana University of Pennsylvania

Cory Lynn Young
Ithaca College

Donna J. Kain
East Carolina University

Bill Margaritis
FedEx

Carter A. Daniel
Rutgers University

Cees van Riel
Erasmus University

Charlotte Rosen
Cornell University

Chris Kelly
New York University

Cynthia Buhay-Simon
Bloomsburg University

Don Bates
Columbia University

Don Wright
Boston University

Dr. Sherry Roberts
Middle Tennessee State University

Elizabeth Powell
University of Virginia

Frank Jaster
Tulane University

Gary Kohut
University of North Carolina–Charlotte

Irv Schenkler
Stern School of Business, New York University

James O'Rourke
University of Notre Dame

Jane Gilligan
Clark University

Jerry Dibble
Georgia State University

Jon Iwata
IBM

JoAnne Yates
Massachusetts Institute of Technology

Joan M. Lally
University of Utah

Joel T. Champion
Colorado Christian University

Jonathan Slater
State University of New York at Plattsburgh

Judith Sereno
Medaille College

J. S. O'Rourke
University of Notre Dame

Karen Gersten
Evelyn T. Stone University College

Linda Lopez
Baruch College

Lynn Russell
Columbia University

Otto Lerbinger
Boston University

Margo Northey
Acknowledgments
University of Western Ontario

Mary E. Vielhaber
Eastern Michigan University

Michele Marie Bresso
Bakersfield College

Michael Putnam
University of Texas–Arlington

Paul Ziek
Pace University

Rick Calabrese
Dominican University

Robert Mead
Aetna

Robert Stowers
College of William & Mary

Sherron B. Kenton
Emory University

Sherry Southard
East Carolina University

Stephen Greyser
Harvard Business School

Suzette Heiman
University of Missouri

Valerie Haertel
Alliance Capital Management

Wayne Moore
Indiana University of Pennsylvania

Yunxia Zhu
UNITEC (New Zealand)

My thanks also go to the staff of McGraw Hill: senior project manager, Melissa Leick; associate portfolio manager Laura Spell, editors Sarah Blasco and Diana Murphy, and former executive editor at Irwin, Bevan O'Callaghan, who initially signed the book. Their patience allowed me the freedom to develop this material for eight editions over a much longer period of time than I would have guessed it would take at the outset.

Finally, I would like to thank my parents for giving me the raw material in the beginning and the education later on that allowed me to become an academic.

Paul A. Argenti
Hanover, New Hampshire
2021

The author welcomes any comments or questions as well as corrections to the text. Please write to Professor Paul A. Argenti, The Tuck School of Business, Dartmouth College, Hanover, NH 03755, or e-mail comments to paul.argenti@dartmouth.edu.

Brief Table of Contents

501-1111

Table of Contents

Chapter 5
Corporate Responsibility 81

Chapter 6
Media Relations 115

Chapter 7
Internal Communications 143

Chapter 8
Investor Relations 161

Chapter 9
Government Relations 185

Chapter 10
Crisis Communication 209

CHAPTER ONE

The Changing Environment for Business

Most of today's business leaders grew up in a different era from the one they find themselves in now: A typical senior executive grew up during one of the most prosperous and optimistic periods in American history. The difference between the world these people knew in their childhood and the one their grandchildren will face in the mid-twenty-first century is nothing short of staggering.

The public's current expectations of corporations are also different from what they were 50 years ago. To attract customers, employees, and investors, companies need to be progressive leaders about a host of global issues and put their vision in a broader social context. Public scrutiny of business is constant and intense, and in the past decade, disillusionment has grown regarding excesses in executive pay, questionable accounting practices, drug recalls, and moral laxity on the part of corporations.

In this chapter, we put our discussion of corporate communication in context by looking at some of the events that have influenced the operating environment for business. We begin by looking at a history of public attitudes toward American business and their reflection in traditional and social media. Next, we turn to the effects of globalization on business. Finally, we look at how improved corporate communication can help companies compete in this constantly changing environment.

Attitudes toward American Business through the Years

Business has never had a completely positive image in the United States. In the 1860s, the creation of the nation's transcontinental rail systems and the concomitant need for steel created hazardous working conditions for steelworkers and railroad builders alike. Soon thereafter, the Industrial Revolution moved American industry away from a model of small workshops and hand tools to mechanized mass production in factories. This shift had the effect of lowering prices of finished goods, but it also contributed to harsh and dangerous working conditions for laborers, as documented in Upton Sinclair's book, *The Jungle.* The exploitation of young women and children working in factories, highlighted by the deadly Triangle Shirtwaist Factory fire in 1911, only added to negative perceptions of business.

As the patriarchs of big business, the Carnegies, Mellons, and Rockefellers—"robber barons," as they came to be known—were perceived as corrupt businessmen looking out for their own interests rather than the good of all citizens. And yet these negative attitudes toward the first modern corporate businessmen were coupled with envy of their material wealth. Most Americans wanted the lifestyle of these business magnates and came to see the pursuit of wealth and the security it provided as part of the "American Dream." The concept of social mobility, captured in author Horatio Alger's rags-to-riches novels, seemed to many to be a tangible reality in America's cities, and immigrants came to the United States in large numbers.

The 1920s were characterized by a sharply rising stock market following the conclusion of World War I and by increasing disparities in wealth distribution. These disparities—between rich and middle class, between agriculture and industry—made for unstable economic conditions, while speculation in the stock market fueled its growth to unprecedented levels. The stock market "bubble" finally burst in 1929, giving way to the Great Depression, which would last a decade and affect the rest of the industrialized world. It was a dark time for businesses and individuals alike.

By the mid-1940s, however, businesses started rebounding from the Depression as companies geared up for the Second World War. The steel industry, the automotive industry, the military-industrial complex—all of which made the prosperity of the 1950s and 1960s a reality—got their start during World War II.

Perhaps the epitome of this era, considered by many a "golden age," was the "Camelot" years of the Kennedy administration. The economy was booming, and in the aftermath of the Cuban Missile Crisis, the United States felt it had defused the tensions of the Cold War. Even after Kennedy's death, prosperity continued, and public approval of business soared.

Over a period of 30 years, the marketing consultancy firm Yankelovich asked the question of American citizens: "Does business strike a balance between profit and the public interest?". In 1968, 70 percent of the population answered yes to that question. By the time Richard Nixon was on his way to the White House, however, the nation was torn apart by civil unrest, with the continuation of the civil rights struggle and demonstrations against U.S. involvement in the Vietnam War. Disagreement over the role of the United States in Vietnam marked a serious deterioration in public attitudes toward all institutions, including business. For those who were against the war, the executive branch of government came to stand for all that was wrong with America.

Because it helped to make the war possible and profited from the war, American industry was the target of much of the public's hostility. Dow Chemical's manufacture of Napalm and Agent Orange, which would be used to defoliate Vietnamese jungles, led to student protests on American university campuses. Young people in the United States came to distrust the institutions involved in the war, whether government agencies or businesses. This belief represented a dramatic change from the attitudes Americans had during World War II. Those in power failed to see how the Vietnam War was different because Americans were ambivalent about what the country was fighting for.

Toward the end of the 1960s and coinciding with the war in Vietnam, a rise in radicalism in America marked the beginning of a long deterioration of trust in institutions. The events of the early 1970s also contributed to this shift. For example, Watergate only confirmed what most young Americans had believed all along about the Nixon administration.

TABLE 1.1
How Much Confidence Do You Have in These Institutions?*

Sources: Gallup Poll, http://www.gallup.com/poll/1597/Confidence-Institutions.aspx#3.

	1970s	1980s	1990s	2000s	2010s
Big Business	31%	27%	26%	22%	21%
U.S. Congress	39	33	46	22	10
U.S. Supreme Court	46	50	46	42	36
Military	56	58	68	74	74

*Answers reflect proportion of consumers who responded with "great deal" and "quite a lot" of confidence.

The aftermath of the oil embargo, imposed by Arab nations after the 1973 Middle East war, had even more of an effect on attitudes toward business in America. Cheap, abundant petroleum—the lubricant of the American way of life—suddenly became scarce and expensive as Saudi Arabia and other Arab producers punished the United States for supporting Israel in the war. The cutoff lasted less than three months, but its effects on consumer attitudes are still with us today.

As a result of Watergate, Vietnam, and the oil embargo, by the mid-1970s American attitudes toward business reached an all-time low. In answer to the same question "Does business strike a fair balance between profit and the public interest?" those answering yes in a poll conducted by Yankelovich dropped to 15 percent in 1976 when Jimmy Carter took office. This drop of 55 points in just eight years says more about the changing attitudes toward business than a thousand anecdotes.

An opinion research poll conducted by Gallup that asked members of the general public to rate their confidence in a number of institutions showed declines in all areas, except in the military, as shown in Table 1.1.

As you read this, you may be asking yourself whether the 1980s and 1990s, which together constituted the final economic boom of the twentieth century, restored America's faith in business to where it had been in the 1960s. They did not, as a Harris Poll found that by the late 1990s, confidence in American institutions had fallen to its lowest level recorded in the previous thirty years.[1]

In response to a question about whether business strikes a fair balance between profit and the public interest, the percentages climbed back to a high of 30 percent answering yes in 1984. And the percentages dropped slightly to 28 percent in 1999 (the last year Yankelovich asked this question). (See Table 1.2.)

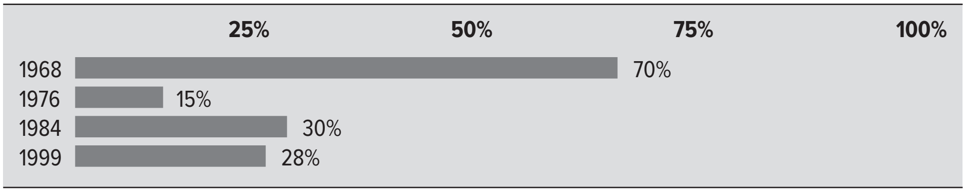
In a Gallup poll conducted over the first two weeks of January 2020, just 8 percent of respondents described themselves as "very satisfied" with the size and influence of major corporations, while another 33 percent considered themselves "somewhat satisfied." Some of the dissatisfaction was attributable to concerns about the regulation (or lack thereof) of big business on the part of the U.S. government. By a slight margin (44 percent to 41 percent) more respondents were dissatisfied than satisfied with government regulations of big business, according to that same Gallup survey. Of those upset with governmental regulation of large firms, half wanted more regulations, while the other half wanted less.[2]

[1] Harris Poll 2017.

[2] Gallup Poll, "Confidence in Big Business," https://news.gallup.com/poll/5248/big-business.aspx.

TABLE 1.2
Does Business Balance Profit and Public Interest?*

Source: *Yankelovich Monitor.*



*Percent yes responses.

The 1990s saw the phenomenal rise of the NASDAQ index to 4,000 points by the end of the decade. Individual investors were actively participating in the equity markets and reaping enormous gains as stock prices seemed to be on an unstoppable upward trajectory. Then, in the spring of 2000, the markets came crashing down. By December, the NASDAQ had sunk to less than half its peak level of 5,000, reached at the beginning of the year. And unfortunately for the 100 million individual investors who had poured money into the market during the Internet-fueled boom of the 1990s, it did not stop there in its downward spiral. By early 2002, these individuals had lost $5 trillion since the "Internet bubble" burst, representing 30 percent of their stock wealth.[3]

With the bursting of the "dot.com bubble," the exposure of corporate fraud at large companies such as WorldCom, Adelphia, and Tyco, and the collapse of Enron and its auditor, Arthur Andersen, due to fraudulent accounting, Americans perceived business as actively trying to deceive them. This perception was reflected in the media as well, such as in the *NBC Nightly News* segment entitled "The Fleecing of America."

In the midst of this market turmoil, the actions of unscrupulous financial analysts (see Chapter 8 for more on analysts) and companies like Enron angered the American public further. By February 2002, some 81 percent of investors polled "did not have much confidence in those running Big Business."[4] This attitude is not surprising when you consider the many highly publicized stories of top executives who sold millions of dollars' worth of shares in their own failing enterprises, further enhancing their wealth as rank-and-file employees lost much of their retirement savings.

The public also has been embittered by the growing pay gap between senior executives and ordinary workers that reached enormous proportions over recent decades. According to the Economic Policy Institute, since 1978, CEO compensation rose 1,007.5 percent, compared with 11.5 percent for average workers, with CEOs in 2019 making 278 times the average worker.[5] In December 2019, the Congressional Budget Office reported that the middle 60 percent of the American population experienced a growth in household income of 47 percent between 1979 and 2016 (after taxes and adjusted for inflation), while the top 1 percent of earners experienced a growth in household incomes of 218 percent. The study also projected that income for the lowest quintile would grow a mere 1.3 percent by 2021 to $21,900, while income for the top 1 percent would grow 2.3 percent

[3] Marcia Vickers, Mike McNamee, et al., "The Betrayed Investor," *BusinessWeek,* February 25, 2002, p. 105.

[4] Ibid., p. 106.

[5] Jeff Cox, "CEOs See Pay Grow 1,000% in the Last 40 Years," *CNBC*, August 16, 2019, https://www.cnbc.com/2019/08/16/ceos-see-pay-grow-1000percent-and-now-make-278-times-the-average-worker.html.

from $1.8 million to $2.0 million.[6] While top earners enjoy lucrative compensation packages, today 40 million Americans rely on food stamps,[7] and 21.3 percent live in households receiving some form of government assistance, according to 2015 data from the Census Bureau.[8] Nobel Prize–winning economist and *The New York Times* contributor Paul Krugman refers to this period of increasing income inequality, which he believes started in the late 1970s, as “The Great Divergence.” He writes that it is more a product of conservative politics, tax law that is favorable to the wealthy, and inflated executive compensation than it is a product of less personal forces including globalization and technology.[9,10] Alan Binder for *The Wall Street Journal* similarly argued in 2019 that more recent tax cuts have likewise aggravated income inequality.[11]

Although executive compensation in general is a controversial subject, in the wake of the 2008 subprime credit crisis, public scrutiny has focused on the outsized annual bonuses doled out on Wall Street. Americans were especially outraged that financial firms receiving public TARP (Troubled Asset Relief Program) rescue funds could use the money to pay out executive bonuses. In March 2009, insurance giant A.I.G. earned negative press when it decided to award multimillion-dollar bonuses to its executives despite having just received a $US 100 billion government bailout. In the summer of 2009, then New York attorney general Andrew Cuomo released a report that detailed compensation at the largest New York–based banks that received public bailout money. The report revealed that Merrill Lynch had paid 149 bonuses greater than $US 3 million and 696 bonuses greater than $US 1 million, despite being in such dire financial straits that it had to merge into Bank of America in early 2009.[12] In July 2010, Kenneth R. Feinberg, who was appointed by President Obama to oversee executive compensation during the bailouts, released a report claiming that nearly 80 percent of the $US 2 billion that banks paid out in 2008 bonuses were unmerited.[13]

Increased tension over growing income inequity combined with relatively high unemployment rates in the United States sparked the Occupy Wall Street movement, a protest against corporate greed and corruption. The largely peaceful Occupy Wall Street movement started in September 2011 in Zuccotti Park in lower Manhattan and quickly spread to other U.S. cities as well as cities around the world, including Paris, London, Berlin, Hong Kong, and Rome.[14] Occupy Wall Street organizers made extensive use of social media and published a daily newspaper to communicate news and marching orders with

[6] “CBO Household Income Report,” Congressional Budget Office, December 2019, https://www.cbo.gov/system/files/2019-12/55941-CBO-Household-Income.pdf.

[7] “Snap Data Tables,” USDA, https://www.fns.usda.gov/pd/supplemental-nutrition-assistance-program-snap.

[8] “21.3 Percent of U.S. Population Participates in Government Assistance Programs Each Month,” U.S. Census Bureau, May 28, 2015, https://www.census.gov/newsroom/press-releases/2015/cb15-97.html.

[9] Paul Krugman, “Introducing This Blog,” *The New York Times*, September 18, 2007, http://krugman.blogs.nytimes.com/-2007/09/18/introducing-this-blog.

[10] “Trends in the Distribution of Household Income between 1979 and 2007,” Congressional Budget Office, October 2011, http://www.cbo.gov/ftpdocs/124xx/doc12485/10-25-HouseholdIncome.pdf.

[11] Alan S. Blinder, “Tax Cuts for the Wealthy Make Inequality Worse,” *The Wall Street Journal*, October 31, 2019, https://www.wsj.com/articles/tax-cuts-for-the-wealthy-make-inequality-worse-11572561280.

[12] Stephen Grocer, “Wall Street Compensation–‘No Clear Rhyme or Reason,’” *The Wall Street Journal*, July 30, 2009.

[13] Louise Story, “Topics: Executive Pay,” *The New York Times,* December 5, 2011.

[14] Alan Taylor, “In Focus: Occupy Wall Street Spreads Worldwide,” *The Atlantic,* October 17, 2011.

participants. Organizers executed a branding campaign for the movement based on the slogan “we are the 99%,” meant to highlight the growing income gap between the top 1 percent of earners and the remaining 99 percent. Critics of the Occupy Wall Street movement deride the movement for lacking clear focus and actionable objectives. However, the Occupy Wall Street movement emphatically underscore the growing public discontent with the traditional big business.

In more recent years, two additional movements pertaining to issues of social justice—the #MeToo movement and the Black Lives Matter movement—finally came to the forefront of social consciousness in a way that businesses could not fail to ignore. The phrase “Me Too” was initially used by sexual assault survivor and activist Tarana Burke in 2006 to highlight shared experiences of sexual assault and harassment—especially those experienced by women and girls of color, which Burke had experienced firsthand. The movement took off even further in 2017 following allegations of assault against Hollywood producer Harvey Weinstein.[15] As #MeToo gained traction, the business world has been compelled to confront a wide range of challenges the movement has highlighted, from outright assault and harassment to gender inequity and the gender pay gap, in which women in 2020 still only earned, on average, 81 cents to every dollar made by a male counterpart, and Black women, Native American women, and Latinas earned $0.62, $0.57, and $0.54 for every dollar earned by a white male counterpart.[16,17] In the year following the Harvey Weinstein expose, over 200 men in powerful positions from media to finance to technology stepped down, with over half their positions filled by women.[18] However, while the movement has brought conversations regarding gender inequity and workplace harassment to the forefront, considerable progress remains to be made, as noted by a 2019 Harvard Business Review study, which found that, while in the years following the emergence of the #MeToo movement, reports of unwanted sexual advances declined (in their survey) from 66 to 25 percent, reports of gender harassment increased from 76 percent in 2016 to 92 percent in 2018. Such results highlight that, while progress may be made in the workplace regarding some of the most egregious behaviors, “backlash effects” can unfortunately erode progress.

The Black Lives Matter movement likewise has shone a spotlight on long-standing social ills. The movement was founded in 2013 after the acquittal of George Zimmerman in the shooting death of 17-year-old Trayvon Martin and originally had a primary focus of protesting against police brutality and racism in the United States.[19] The movement

[15] Abby Ohlheiser, “The Woman Behind ‘Me Too’ Knew the Power of the Phrase When She Created It—10 Years Ago,” *The Washington Post*, October 19, 2017, https://www.washingtonpost.com/news/the-intersect/wp/2017/10/19/the-woman-behind-me-too-knew-the-power-of-the-phrase-when-she-created-it-10-years-ago.

[16] Kathleen Elkins, “Here’s How Much Men and Women Earn at Every Age,” *CNBC*, July 18, 2020, https://www.cnbc.com/2020/07/18/heres-how-much-men-and-women-earn-at-every-age.html.

[17] Courtney Connley, “More than 1 in 3 Black Women Are on the Front Lines of the Pandemic,” *CNBC*, August 13, 2020, https://www.cnbc.com/2020/08/13/black-women-are-on-the-front-lines-of-the-pandemic-but-they-arent-even-close-to-equal-pay.html.

[18] Audrey Carlsen, Maya Salam, Claire Cain Miller, Denise Lu, Ash Ngu, Jugal K. Patel, and Zach Wichter, “#MeToo Brought Down 201 Powerful Men. Nearly Half of Their Replacements Are Women,” *The New York Times*, October 29, 2018, https://www.nytimes.com/interactive/2018/10/23/us/metoo-replacements.html.

[19] “Black Lives Matter,” *Newsweek*, https://www.newsweek.com/topic/black-lives-matter.

returned to national headlines following the 2020 killing of George Floyd by a Minneapolis police officer, with 15 to 26 million Americans participating in demonstrations around the country following his death, making the movement one of the largest, if not the largest, social justices movements in U.S. history.[20] Companies have finally felt compelled to respond in turn, with Twitter declaring Juneteenth a corporate holiday to commemorate the end of slavery, and Reddit founder and husband to Serena Williams, Alexis Ohanian, resigning his position on the company's board to make way for the first Black director in the company's history.[21] Numerous other companies, from Netflix to Nike to WarnerMedia brands, utilized social media channels such as Twitter to declare their support for the movement. An obvious tension exists, though, in companies taking a stand on such deep social injustices in the absence of any real action to combat their underlying causes. Americus Reed, a marketing professor at the Wharton School at the University of Pennsylvania, has described such actions as "values and identity-driven targeted marketing," further noting that, "They're taking a stand, hopefully, because it's moral but also because they understand the long-term economic game."[22] Notably, Black-owned businesses have witnessed an up-tick in business as the movement has gained increasing traction.[23] Skepticism, however, remains as to whether these gains will be short-lived or whether the world of business (and beyond) will continue to commit, in a sustainable and meaningful way, to eradicating the ills of racial inequity, where the average Black family has one-tenth the net worth of the average white family in the United States and where the coronavirus pandemic has disproportionately ravaged communities of color.[24,25]

Television, Social Media, and the Online World

Literature and the arts have both affected and reflected perceptions about institutions throughout human history. Greek attitudes about government and religion manifested themselves in theater; Shakespeare shaped notions about English history for generations; and today, in the United States, television, social media, and the online world have both reflected and helped to create some of the public's negative attitudes about business.

[20] Larry Buchanan, Quoctrung Bui, and Jugal K. Patel, "Black Lives Matter May Be the Largest Movement in U.S. History," *The New York Times*, July 3, 2020, https://www.nytimes.com/interactive/2020/07/03/us/george-floyd-protests-crowd-size.html

[21] Tracy Jan, Jena McGregor, Renae Merle, and Nitasha Tiku, "As Big Corporations Say 'Black Lives Matter,' Their Track Records Raise Skepticism," *The Washington Post*, June 13, 2020, https://www.washingtonpost.com/business/2020/06/13/after-years-marginalizing-black-employees-customers-corporate-america-says-black-lives-matter.

[22] Tiffany Hsu, "Corporate Voices Get Behind 'Black Lives Matter' Cause," *The New York Times*, June 1, 2020, https://www.nytimes.com/2020/05/31/business/media/companies-marketing-black-lives-matter-george-floyd.html

[23] Fredreka Schouten, "The Black Lives Matter Movement Is Driving Customers to Black-Owned Businesses," *CNN*, June 20, 2020, https://www.cnn.com/2020/06/20/politics/black-owned-businesses/index.html.

[24] Tracy Jan, "White Families Have Nearly 10 Times the Net Worth of Black Families," *The Washington Post*, September 28, 2017, https://www.washingtonpost.com/news/wonk/wp/2017/09/28/black-and-hispanic-families-are-making-more-money-but-they-still-lag-far-behind-whites.

[25] "Health Equity Considerations and Racial and Ethnic Minority Groups," CDC 2019 Coronavirus Report, July 24, 2020, https://www.cdc.gov/coronavirus/2019-ncov/community/health-equity/race-ethnicity.html.

For many Americans today, what they see in fictional or "factional" accounts on TV and online helps shape their attitudes more than educational institutions. With three in ten American adults spending time online nearly "constantly" and eight in ten going online daily, it is very clear that the online depiction of a corporation can easily and readily be viewed by many Americans.[26]

The Media Institute, a research organization funded by corporations, has been tracking media coverage of business for more than 40 years. Each time it issues a report, the results are the same: businesspeople are portrayed negatively in almost two-thirds of all television programs. Researchers have concluded that half of the time, businesspeople portrayed on television were involved in criminal activities.

In addition, most Americans (44 percent) get their news from television.[27] As a result, the negative portrayals viewers see in fictional programming blend into the negative news they watch on the nightly news. An individual might, for example, watch an episode of *Law & Order* in which a woman is framed for murder after raising questions about her company's back-dating of stock options one night, then see an in-depth story about United Health doing the same thing on *Dateline NBC* the following evening.

Similarly, though, the share of Americans receiving their news from online is growing, with 34 percent of U.S. adults getting their news in this way. Given that individuals can just as easily (if not more easily) switch from reading the news from reliable sources to watching shows online to stumbling into less thoroughly vetted sources of information on a company, it is clear that there are many avenues to reinforce negative perceptions of business.

It is eerie how Hollywood has mirrored events in business at exactly the right time. The movie *Wall Street* is another such example. Oliver Stone's movie came out just ahead of the great scandals that rocked the real Wall Street in the late 1980s. Even within the film itself, reality and fiction were intertwined. Gordon Gekko, the evil financial genius meant to represent someone like the notorious arbitrageur Ivan Boesky, makes a speech in the film about greed. "Greed is good, greed purifies, greed cuts through and captures the essence of the evolutionary spirit," Gekko says in a passionate speech at an annual meeting. Months earlier, the real Ivan Boesky had made a similar speech to a group of graduates at the University of California's Berkeley campus.

Are these examples instances of "life imitating art"? More likely, it is the other way around. As long as business has a negative public image, movies and television will continue to dramatize real-life tales of corporate wrongdoing. As Hollywood exports a large number of American films to countries around the world, these images become part of a global informational tapestry that we explore in more detail in the next section.

[26] Andrew Perrin and Madhu Kumar, "About Three-in-Ten U.S. Adults Say They Are 'Almost Constantly' Online," Pew Research Center, July 25, 2019, https://www.pewresearch.org/fact-tank/2019/07/25/americans-going-online-almost-constantly.

[27] A.W. Geiger, "Key Findings About the Online News Landscape in America," Pew Research Center, September 11, 2019, https://www.pewresearch.org/fact-tank/2019/09/11/key-findings-about-the-online-news-landscape-in-america.

The Global Village

Technology has strengthened communication channels around the globe, disintegrating national borders to produce what Canadian philosopher Marshall McLuhan foresaw decades ago—the creation of a world so interwoven by shared knowledge that it becomes a "Global Village."[28] This trend has had a monumental impact on business, particularly over the past two decades.

In 2002, the U.N. Conference on Trade and Development published an article stating that 29 of the world's top 100 economies were multinational businesses rather than countries.[29] As of 2018, this has reversed, with 29 of the world's top 100 economies being countries and the other 71 being multinational businesses.[30] Thus, it may not be surprising that individuals have begun to turn to large companies to provide the direction that distinct national cultures, communities, and inspirational narratives offered more strongly in the past. Coupled with this shift is a heightened level of interest in social responsibility on the part of organizations. Later in this book, we will discuss the growing importance of corporate social responsibility and its implications for corporate reputation, but generally, the public is looking for companies to demonstrate care for the communities in which they operate from both an environmental and human perspective.

In his book *The Mind of the CEO,* Jeffrey Garten explains, "As the world gets smaller, CEOs will be unable to escape involvement in some of the most difficult political, economic and social problems of our times. There will be no way to avoid operating in countries with fragile economies, weak democratic structures and mega-cities with severely overburdened infrastructures."[31]

Today, companies recognize that the ability to tap into the benefits of globalization is imperative for a company's survival, but at the same time are grappling with the ways to best take advantage of that. The 2019 PwC Global CEO survey underscores the complexities and concerns that come with competing within the global market, with 60 percent of CEOs stating they are "extremely concerned" about protectionism and an increasing number stating they "don't know" where they would like to expand to next.[32]

An anticorporation sentiment was formalized on paper in October 1997, when Earth First! produced a calendar listing important anticorporate protest dates and announcing the first "End Corporate Dominance Month."[33] Since then, organizations such as Vancouver-based Adbusters Media Foundation, which was founded in 1989, have risen to

[28] Marshall McLuhan and Bruce R. Powers, *The Global Village: Transformations in World Life and Media in the 21st Century* (New York: Oxford University Press, 1989).

[29] Progressive Policy Institute, "The World Has over 60,000 Multinational Companies," April 27, 2005, http://www.ppionline.org/ppi_ci.cfm?knlgAreaID=108&subsecID=900003&contentID=253303.

[30] "Of the World's Top 100 Economic Revenue Collectors, 29 Are States, 71 Are Corporates," Oxfam, August 3, 2018, https://oxfamblogs.org/fp2p/of-the-worlds-top-100-economic-entities-29-are-states-71-are-corporates.

[31] Jeffrey Garten, *The Mind of the CEO* (New York: Basic Books, 2001), p. 24.

[32] "22nd Annual Global CEO Survey," PwC, https://www.pwc.com/gx/en/ceo-survey/2019/report/pwc-22nd-annual-global-ceo-survey.pdf.

[33] Naomi Klein, *No Logo: Taking Aim at the Brand Bullies* (New York: Picador USA, 1999), p. 327.

a dominant position as nonprofits that devote themselves to deriding corporate giants—a practice now officially referred to as *culture jamming*.[34] Plastering the image of Charles Manson's face over a Levi's jeans billboard, hurling pies at Bill Gates, and dumping garbage bags full of shoes outside of Nike Town to protest Pakistani children manufacturing Nike soccer balls for six cents an hour are some of the routine tactics culture-jamming activists have employed to make anticorporate statements to the public.[35]

> This past decade has witnessed an even greater shift in consumer sentiment, from one that distrusted corporate action to one that actually demands companies take a stand on the most challenging societal issues of our time. The Edelman Trust Barometer report from 2020 notes that brand trust—and specifically trust defined as "doing what is right"—is a top five purchase criterion for consumers. In many ways, this is reflective of the newfound belief that brands have the potential to act as positive agents of social change, and consumers are able to participate in this by "voting" with their wallets.[36]

The continual technological advances of the Internet—namely, social media—also have made it difficult for companies to prevent both positive and negative news about them from reaching individuals in virtually all corners of the world. Media outlets have expanded their reach such that events are no longer confined to local communities; rather, they can create reverberations felt worldwide. In 2018, the United Nation's Big Data Working Group estimated that the average mobile subscription rate was 107.0 per 100 inhabitants.[37] As of July 2020, almost 4.6 billion people were active Internet users, encompassing 59 percent of the global population.[38] In the United States, the level of Internet access is far higher, and thus the amount of Internet usage is far higher too, with roughly eight in ten U.S. adults going on online daily and three in ten reporting nearly "constant" Internet usage, according to the Pew Research Center.[39] Data suggest that these numbers will only continue to increase as consumers assume further control of corporate reputations and communicate with one another in real time, 24/7. According to a 2016 Nielsen Social Media study, surprisingly, the heaviest social media user group was not Millennials but Generation X (ages 35–49), who spend almost seven hours per week on social media versus Millennials who spend approximately six hours.[40]

Business leaders today therefore must be prepared not only to handle the international media spotlight but also to proactively counter the advocacy groups looking to use today's media environment to compromise their corporate reputation—and bottom line—globally.

[34] Ibid., p. 280.

[35] Ibid.

[36] United Nations Big Data Report, https://unstats.un.org/bigdata/taskteams/mobilephone.

[37] Ibid.

[38] "Global Digital Population as of October 2020," Statista, https://www.statista.com/statistics/617136/digital-population-worldwide.

[39] Andrew Perrin and Madhu Kumar, "About Three-in-Ten U.S. Adults Say They Are 'Almost Constantly' Online," Pew Research Center, July 25, 2019, https://www.pewresearch.org/fact-tank/2019/07/25/americans-going-online-almost-constantly.

[40] "2016 Nielsen Social Media Report," Nielsen, https://www.nielsen.com/wp-content/uploads/sites/3/2019/04/2016-nielsen-social-media-report.pdf.

How to Compete in a Changing Environment

Even well-respected companies face attacks in this new environment. Gillette (now part of Procter & Gamble), for example, was the target of animal rights groups that successfully used teachers and children to create a stir over the company's research methods. One letter to Gillette's former chairman, Alfred Zeien, said: "Let this be a warning to you. If you hurt another animal, if I find out, one month from [the day] this letter arrives to you, I'll bomb your company. P.S. Watch your back." The letter came from a sixth grader at a school in Philadelphia. As homework, his teacher had assigned letters to companies about animal testing.[41] While the children's campaign had no effect on market share, the company worried about potential long-term effects: "Long term, this could be a very bad trend for the business," said CEO Zeien.[42]

When Walmart faced allegations of unfair treatment of employees, including forcing hourly wage earners to work off the clock, favoring men over women in pay and promotion, and locking employees in stores after closing until managers visited every department, the media pounced on the opportunity to deface the corporate behemoth. In 2000, a female Walmart employee named Betty Dukes filed a sexual discrimination suit against the company that would eventually become a class-action suit representing 1.6 million females. The case finally made its way to the highest court in the United States, the Supreme Court, in 2011, and although the court ruled that the plaintiffs had too much variation in their complaints to merit a class-action suit, Walmart endured negative press for 11 years during the proceedings. A journalist who covered the story turned her research into a book called *Selling Women Short: The Landmark Battle for Workers' Rights at Wal-Mart*, and likened Betty Dukes to civil rights activist Rosa Parks.

Beyond the scrutiny it receives in traditional media outlets, Walmart is also the target of vitriolic social commentary online, with an ever-growing list of anti-Walmart blogs and social groups forming to collectively criticize its controversial business practices. This added dimension of communication, coupled with the reputational risk factors it fosters, raises a key question: how can managers adapt to the challenges of a business environment that is constantly in flux but seems to be moving in the direction of greater scrutiny and less favorable impressions of corporations? In the next section, we look at some of the ways companies can stay on course while navigating these choppy waters.

Recognize the Changing Environment

First, managers need to recognize that the business environment *is* constantly evolving. The short-term orientation of today's managers rarely gives them an opportunity to look at the big picture of how this changing environment affects the company's image with a variety of constituencies. Over the long term, this perspective can have damaging results.

[41] Barbara Carton, "Gillette Faces Wrath of Children in Testing of Rats and Rabbits," *The Wall Street Journal*, September 5, 1995, p. A1.

[42] Ibid.

Coca-Cola took note when, in January 2006, the University of Michigan suspended the purchase of its products on campus.[43] This now classic business case had nothing to do with pricing or the products themselves; rather, it was taken based on concerns over environmental concerns in India and labor issues in Colombia. Among the allegations was a contention that products contained unacceptable levels of insecticides (PepsiCo's products were also found to contain unacceptable levels of pesticides).

The business and communication implications of this revelation and the university's subsequent reaction are manifold: first, the University of Michigan's decision was prompted by one man, Amit Srivastava, who ran a small nonprofit out of his home in California. He mobilized students on campus to petition for the ban—an organizational feat that, just a few years before, would have been unthinkable. Second, these visceral reactions on the part of students applied so much pressure that the company agreed to open its overseas facilities to independent, transparent, third-party environmental and labor audits.[44] Third, the event points to a major evolution in business: Sustainable business practices are becoming core brand values that can inspire change. Coca-Cola's sustainability efforts changed dramatically over the course of a year, and the company appeared among the 2007 Global 100 Most Sustainable Corporations in the World. It is still considered a leader in sustainability today, sitting on Barron's 100 Most Sustainable Corporations List as of 2020.[45]

One of the most important challenges facing senior managers is the profoundly unsettling impact of technological change. Andrew Grove, cofounder and senior advisor to the executive management of Intel Corporation, explained, "We make a cult of how wonderful it is that the rate of [technological] change is so fast. But . . . what happens when the rate of change is so fast that before a technological innovation gets deployed, or halfway through the process of being deployed, [an] innovation sweeps in and creates a destructive interference with the first one?"[46] Although many agree that technology has helped business, it also has led to greater uncertainty for business leaders and consumers alike.

Unlike many shifts in the market that companies can anticipate by keeping their fingers on the pulse of change, such as evolving consumer tastes, technological innovations can happen swiftly and have profound effects. Companies need to quickly determine what, if anything, they need to do to respond to such changes.

Adapt to the Environment without Compromising Principles

Second, companies must adapt to the changing environment without changing what they stand for or compromising their principles. In the summer of 2011, Netflix announced that it would "no longer offer a plan that includes both unlimited streaming and DVDs by mail." Subscribers would have to join two separate services—one of them ludicrously dubbed Qwikster—and pay $16 a month instead of $10. The ensuing backlash and exodus stunned investors; more than 800,000 customers fled Netflix in a single quarter, sending

[43] http://www.umich.edu/news/?BG/procmemo.

[44] Ibid.

[45] Evie Liu, "The 100 Most Sustainable Companies, Reranked by Social Factors," Barron's, June 28, 2020, https://www.barrons.com/articles/these-companies-rank-best-on-social-criteriaand-could-reward-investors-51593215993.

[46] Garten, *Mind of the CEO*, p. 32.

its stock plunging from $300 a share to around $65 by year's end. Netflix quickly scrapped Qwikster and apologized, but the company only truly recovered from the gaffe with original series such as *Orange is the New Black*, which launched in 2013. Soon profit was skyrocketing, stock hit $400 per share, and Netflix has continued to persist as a streaming giant offering high-quality programming at a low cost.[47]

Arie de Geus of the MIT Sloan School of Management analyzed the strengths of what he defined as "living companies"—a group of 30 companies ranging in age from 100 to 700 years scattered throughout North America, Europe, and Japan.[48] One of the primary reasons these companies—including DuPont, W.R. Grace, Sumitomo, and Siemens—have managed to endure has been their ability to adapt to the rapidly evolving environment in which they live. De Geus explains: "As wars, depressions, technologies, and politics surged and ebbed, they always seemed to excel at keeping their feelers out, staying attuned to whatever was going on. For information, they sometimes relied on packets carried over vast distances by portage and ship, yet they managed to react in a timely fashion to whatever news they received. They were good at learning and adapting."[49]

Don't Assume Problems Will Magically Disappear

Third, assume things will only get worse in today's complex environment, especially with the ever-growing prevalence of consumer-generated media and online communications platforms. For example, Chemical giant Monsanto faced challenges when its foray into genetically engineered crops met with resistance from protesters who labeled its products "Frankenfoods." Protests were not limited to the company's headquarters in St. Louis but spread to some of Monsanto's large, visible customers, forcing McDonald's, for one, to announce that it would no longer use the company's genetically modified (GM) potatoes.[50]

This issue ultimately took its toll on the company's stock price in the late 1990s, even though the company met Wall Street expectations. In response, Monsanto adopted a new approach to handling the "GM backlash" through education and outreach. However, the problems with the Monsanto brand never truly dissipated. Bayer acquired the company in 2018 and entirely nixed the Monsanto name, as it had consistently been ranked as one of the most hated companies in the world. Today, Bayer itself seems to be suffering from its acquisition of Monsanto, as it faces a mountain of legal trouble regarding claims that Roundup causes cancer, leading to the ousting of Bayer's chairman.[51,52]

The Monsanto case clearly underscores the extent to which certain brand challenges, including brand perception and underlying brand integrity, do not just dissipate. Most

[47] "The Biggest Business Comebacks of the Past 20 Years," *Fast Company*, March 17, 2015, https://www.fastcompany.com/3042431/the-biggest-business-comebacks-of-the-past-20-years.

[48] Arie de Geus, "The Living Company," *Harvard Business Review,* March 1, 1997.

[49] Ibid.

[50] Jonathan Low and Pam Cohen Kalafut, *Invisible Advantage: How Intangibles Are Driving Business Performance* (Cambridge: Perseus Books, 2002), p. 114.

[51] Caitlin Dewey, "Why 'Monsanto' Is No More," *The Washington Post*, June 4, 2018, https://www.washingtonpost.com/news/wonk/wp/2018/06/04/why-monsanto-is-no-more.

[52] Ruth Bender, "Bayer Chairman Steps Down in Midst of Roundup Legal Battle," *The Wall Street Journal*, February 26, 2020, https://www.wsj.com/articles/bayer-chairman-steps-down-in-midst-of-roundup-legal-battle-11582714274.

managers assume that the American public has a short memory about the problems companies face. In fact, consumers have longer memories than you might think, as witnessed by boycotts of companies such as Coors, Walmart, Nike, and Shell.

Some companies seem to be getting it right, but most are still getting it wrong. What's more, all constituent groups—from employees to investors to consumers—are taking advantage of changes in the business environment that empower them to increase their personal gains. For example, in autumn 2007, two separate situations took place on opposite coasts, in New York City and Los Angeles, that illustrate unique communication strategies.

On November 5, 2007, screenwriters took to the streets of Hollywood, initiating the first industrywide strike in more than 19 years.[53] Under the representation of the Writers Guild of America, approximately 12,000 movie and television writers formed picket lines in response to failed negotiations with Hollywood producers over their stake in new media revenue, including downloaded movies and online promotional showings of movies and television shows.

The strike crippled the industry, as networks such as CBS and ABC had to shut down production of major primetime shows. Clearly, producers could not just hope the problem would disappear, but their communications and negotiation strategies posed interesting nuances. For example, a *BusinessWeek* article entitled "Behind the Hollywood Strike Talks" highlights an underlying factor driven by conflicting business model challenges from each side:

> The traditional business models of both sides worked well when there were a handful of movie studios and three major TV networks. But now everyone can be a writer or a producer, and every computer is potentially a studio, able to create and publish content. More than 1 billion people on the planet are connected to the Internet, a healthy portion of them via high-speed broadband.[54]

The author of the article, Henry Chesbrough, executive director of the Center for Open Innovation at the Haas School of Business at University of California Berkeley, also highlighted another detail that will continue to play a more prevalent role in management and communication:

> Much of the new online entertainment content is not coming from professional writers or producers at all. Rather, as others have noted, it is coming from users and user communities that stimulate one another to create content.

Unsure of how the negotiations between writers and producers will end, Chesbrough believes that both sides need to make sizable changes and concessions to their business models to take advantage of the shifting industry and the new opportunities provided. He also underscores the massive opportunity that these user communities have to upend Hollywood as we know it. Chesbrough indicates that if Hollywood refuses to meet the challenge that the emergence of these communities creates, they are positioned to lose.

[53] Michael Cieply, David Carr, and Brooks Barnes, "Screenwriters on Strike over Stake in New Media," *The New York Times*, November 6, 2007, https://www.nytimes.com/2007/11/06/business/media/06strike.html.

[54] Henry Chesbrough, "Behind the Hollywood Strike Talks," *BusinessWeek*, November 1, 2007, http://www.businessweek.com/innovate/content/nov2007/id2007111_779706.htm?chan=search.

Coincidentally, as this contention heated up in Hollywood, a similar situation percolated in the Big Apple. On November 10, 2007, stagehands announced a strike of their own, and Broadway went dark. It was the first in the stagehand union's 121-year history, and it darkened 31 theaters.[55] Unlike the writers' strike, which hinged in the proliferation of new media and its role in generating revenue, the stagehand dispute focused on work rules in their contracts that the producers' league claimed to be expensive and inefficient. The league wanted to change these rules, and the consideration was not well received by the stagehands.

The strike lasted 19 days, during which time New York Mayor Michael Bloomberg offered to provide a mediator and a neutral place to negotiate; both offers were declined. What *The New York Times* called "a series of back-channel conversations between league members and union officials" eventually precipitated talks that ended with a resolution.

Again, it is difficult to assume a problem such as one that left Broadway dark would magically disappear, but the communications strategy proved to be much more traditional, and the strike itself was relatively brief compared with the writers' strike. Negotiations focused on work rules and were not clouded by the nebulous laws governing cyberspace. However, with digital communications platforms playing an increasingly integral role in overall management and communications, competition in the changing business environment continues to evolve.

Keep Corporate Communication Connected to Strategy

Fourth, corporate communication must be closely linked to a company's overall vision and strategy. Few managers recognize the importance of the communication function, and they are reluctant to hire the quality staff necessary to succeed in today's environment. As a result, communication people are often kept out of the loop.

Successful companies connect communication with strategy through structure, such as having the head of corporate communication report directly to the CEO. The advantage of this kind of reporting relationship is that the communications professional can get the company's strategy directly from those at the top of the organization. As a result, all of the company's communications will be more strategic and focused (see Chapter 3 for more on structure).

The aforementioned Arthur Page "Authentic Enterprise" report also urged enterprises to define and activate their core values in new ways, which "demands increased delegation and empowerment, while maintaining consistency of brand, customer relationships, public reputation and day-to-day operations. Values are the 'glue' shaping behavior and uniting goals. However, building a management system based on values is a significant challenge. Understanding what the company and its people truly value and turning that into pervasive behavior require new kinds of leadership, tools and skills."[56]

In Chapter 10, we will take a look at how Johnson & Johnson (J&J) handled the Tylenol cyanide crisis of the early 1980s. Part of what helped the company deal so successfully

[55] Campbell Robertson, "Stagehands End Walkout on Broadway," *The New York Times*, November 29, 2007, https://www.nytimes.com/2007/11/29/theater/29broadway.html.

[56] "The Authentic Enterprise," Arthur W. Page Society, 2007.

with this dire situation was the existence of the J&J Credo, a companywide code of ethics that spells out J&J's promises to its many constituencies. This credo helped guide the company's actions during an episode that could have irreparably damaged the Tylenol brand and possibly J&J itself. Thirty years later, the company was again under attack for its faulty production practices but still feeling the halo effect from its handling of this situation.

Companies' corporate communications teams play a pivotal role in defining a corporate mission—the cornerstone of a company's overarching strategy—and communicating that mission to internal and external constituents. Given today's rapidly changing environment, a clear-cut corporate mission not only keeps employees aligned with what the company is striving to be but also can act as a source of stability for consumers weary of the constant change surrounding them.

Conclusion

The business environment is constantly changing. Everyone in business today, whether at a large corporation with a national union to deal with or a small business looking to make its mark in the international arena, needs to communicate strategically. The way organizations adapt and modify their behavior, as manifested through their communications, will determine the success of American business in the twenty-first century.

Case 1-1

Redwood Health System

On September 15, 2018, the Board of Directors of Redwood Health System simultaneously announced at its annual physician retreat the retirement of its beloved CEO of eight years, Eric Bell, and the hiring of Elizabeth Wells as his replacement. Founded in Marin County in 1980, Redwood Health System was recognized as a leader in health care delivery in California and across the United States. Rooted in the principles of teaching, research, and patient-centered care, Redwood was an academic medical center that served patients from Marin County and across Northern California.

Originally founded as a single hospital called Valley Clinic, Redwood Health System began to acquire community hospitals throughout the region in the 1980s to gain greater contract leverage over local payers and, due to increased demands for specialty care in the region, it eventually grew to become a ten-hospital system. Redwood served a spectrum of patients throughout the Northern California region, ranging from low-income patients suffering from multiple chronic conditions to higher-income patients looking for concierge health services. Physicians within the system had historically been paid on a traditional fee-for-service (FFS) model. The system also provided care through a number of revenue-generating specialty service lines that produced maximum reimbursement for the hospitals under this FFS system. These profitable centers of the hospital included Cardiology, Orthopedics, Oncology, and Plastic Surgery. As is the case with many hospitals under FFS systems, specialists earned significantly more than primary care physicians, and as such, controlled much of the purse strings during capital budgeting deliberations at Redwood. Despite this pay-and-power discrepancy between specialists and primary care physicians, Redwood still enjoyed relatively high employee morale, with employees frequently citing the pride in their work as being among the top reasons they stayed at the health system.

Unifying all ten hospitals under the Redwood banner was the health system's finance and billing department that brought together service line leaders from each institution for annual capital budget meetings, reimbursement updates from payers, and little else. Though the Redwood system had tried to move to a managed care model in the early 2000s, managed care proved to be too administratively burdensome for the system and Redwood abandoned the model by the late 2000s. Overall, physicians felt the attempt at managed care jeopardized their professional autonomy and the scattered rollout simply increased their existing paperwork burden; subspecialist physician leaders were especially pleased to see a return to the original model and the greater autonomy that came with it.

However, the passage of the Affordable Care Act (ACA) in 2010, and its particularly comprehensive changes that came into effect in 2014, forced Redwood to once again contend with the need to move to a managed care model and similarly to find leadership capable of ushering in such a change.

Dr. Eric Bell had been the long-time CEO of Redwood since 2004, leading the system through the previous attempt at a transition to a managed care model. Bell had completed his fellowship in gastroenterology at Valley Clinic, met his wife (a primary care physician) during his fellowship year, and had been with Valley Clinic for 30 years. He moved to the administrative side of the system in 1990 and eventually was promoted to Chief Medical Officer (CMO) in 1996. Bell was a beloved member of the hospital, well-liked among providers and staff. As CMO, he fostered strong bonds across specialty areas, resulting in high physician satisfaction and low attrition. Primary care physicians also extolled Bell's ability to promote a positive relationship between them and the health system's specialist groups through monthly "listening lunches" he hosted for all physician groups to join and provide feedback on their perspective of Redwood's organizational direction. Believing his effectiveness was dependent on good rapport with those both above and below him, he also forged friendly relationships with members of the Board, especially its current chairman Harry Anders.

Anders had been on the Redwood Board for 10 years and acted as Chairman for the past two. He was well-liked among the physician community and among his colleagues on the Board, and he similarly viewed Bell as a strong leader and good friend. However, he recognized the need to move to leadership better positioned to usher in the changes demanded by the ACA, and thus was in support of the decision to hire Elizabeth Wells. Although Anders had a strong relationship with Bell, Redwood was beginning to lose market share at some of its smaller hospitals where patients were increasingly frustrated by long waiting times to schedule appointments with primary care and specialist physicians alike. While this predicament was a growing concern of the Board, it was subsumed by the belief that the high demand for its medical services was the primary driver behind the long wait times for appointments. Without plans to expand the capacity of workforce or facilities, it was unclear how this market trend would be resolved in the coming years, nor was it of much concern to hospital leaders unaffected by such developments.

Anders announced Wells' appointment at the annual physician leadership retreat at The Lodge at Pebble Beach. A favorite event among physicians, the retreat historically represented an event in which major strategic decisions were discussed across all hospitals within the system. This time, the announcement about the imminent change in leadership was made at the annual banquet in the beautiful Tap Room without discussion. Elizabeth Wells would assume the role of CEO of Redwood, replacing Bell, and usher Redwood through a time of significant policy, reimbursement, and operational change in health care. Her strategy and approach, however, were left to rumor among those in attendance.

Some speculated that Redwood would not be able to successfully align with the policy requirements of the ACA—a path that was met with decidedly mixed results even at larger and more technology-savvy organizations in the state. Others wondered how it might affect their autonomy, with flashbacks to the managed care debacle of decades prior. Even younger physicians worried whether their attending paychecks were in jeopardy with the heavy burden of medical school loans still sitting squarely on their shoulders.

Introducing Wells, Anders pointed out the outstanding record of Redwood's new CEO: "Wells received her MBA from the Tuck School of Business in 2005, spent five years at McKinsey and Company, and then began at Aetna in the early-2010s. Working heavily in finance, Wells was in charge of Aetna's purchase of a number of physician practices and developing integrated delivery networks. Please help me in welcoming Elizabeth to the Redwood family."

"I want to thank Eric and the entire Board of Trustees," Wells said as she took to the podium. "I am thrilled at the opportunity to join the Redwood system. These are exciting times in health care, but there are great challenges ahead of us. As the system embarks on its path over the coming years, we have the opportunity to reshape the way we deliver care to our patients. I have seen in my role at Aetna the value of reducing costs to make care more affordable for the community. This requires a hard look at the way we practice medicine, run our hospitals, and pay our physicians, with a focus on cost containment and value-based physician compensation. It's a bit like running a marathon, which I have done successfully three times, once while I was pregnant."

In a later break-out meeting with the individual hospital CEOs and VPs, Wells spoke about her respect for Redwood and the pressing need to position the system for the upcoming changes in health care delivery. An affable woman but a stickler for details as a self-proclaimed "quant-savant," Wells began making the rounds of the dinner tables that night, discussing her plans to prepare Redwood for a significant transition from "volume to value" and touting the early success of some Accountable Care Organizations in making that change. She vaguely referred to her "new strategy" for reorganizing service lines within Redwood to maximize referral streams through primary care and reworking the systems' physician incentive structure to align with the goals of her future vision for Redwood.

The mood at the end of the retreat was relatively positive, yet a bit inquisitive about Redwood's future direction. Everyone agreed, however, that there would be many upcoming challenges facing Wells and Redwood during this period of significant transition.

CASE QUESTIONS

1. What problems does Redwood face?
2. What problems will Elizabeth Wells have in executing her strategy?
3. How has the business environment changed following the challenges of COVID-19?

CHAPTER TWO

Communicating Strategically

In the first chapter, we examined the changing environment for business over the last half century. In this chapter, we explore how these changes have affected corporate communication and why it has become imperative for modern companies to communicate strategically.

Strategic communication can be defined as "communication aligned with the company's overall strategy, [intended] to enhance its strategic positioning."[1] An effective strategy should encourage a company to send messages that are "clear and understandable, true and, communicated with passion, strategically repetitive and repeated, [and] consistent (across constituencies)."

We begin this chapter with a summary of the basic theory behind all communication, whether individual or organizational in nature. We also briefly discuss influential models in modern communication theory. Although many communication experts have adapted these theories to help leaders communicate in writing and speaking, few have looked at how these same basic theories apply in the corporate communication context; that is, the way organizations communicate with various groups of people (who we will refer to as constituencies).

Communication, more than any other subject in business, has implications for everyone within an organization—from the newest administrative assistant to the CEO. Thanks in part to important strategy work by academics such as Michael Porter, Gary Hamel, and C. K. Prahalad, most managers have learned to think strategically about their business overall, but few think strategically about what they spend most of their time doing—communicating.

This chapter discusses what it means to develop a cohesive and coherent communication strategy within an organization, emphasizing the critical link between corporate communication and the firm's overall corporate strategy.

Communication Theory

Most modern theories associated with communication can be traced back thousands of years to a single common ancestor, the Greek philosopher Aristotle.

[1] Paul A. Argenti, Robert A. Howell, and Karen A. Beck, "The Strategic Communication Imperative," *MIT Sloane Management Review*, Spring 2005.

Aristotle, who studied under Plato and taught in Athens from 367–347 BCE, is most often associated with the development of rhetoric, the ancient antecedent to modern persuasive communication. In his book *The Art of Rhetoric*, Aristotle defined the three basic components of every speech, which have been adapted to meet the needs of the modern corporation.

This strategy depends on thinking carefully about the same three parts that Aristotle used to describe the components of speech: (1) a "speaker," or in our case, a corporation, with something to say; (2) a "subject," or message that needs to be conveyed; and (3) a "person" or group to whom the message will be delivered.

Aristotle's observations on message communication laid the foundation for modern communication theory, which developed in the United States along with several other social sciences following World War II. In 1948, law professor and political scientist at Yale University Harold Lasswell proposed a communications model that he believed applied especially well to mass communications.[2] His linear model can be summarized as "who (Aristotle's speaker) says what (Aristotle's subject or message) in which channel (medium) to whom (Aristotle's recipient) with what effect (effect)." Several years later, professor of communication skills Richard Braddock proposed an expansion of Lasswell's model to include more reflection on the intent of the message, as well as more analysis of the circumstances under which the message was being delivered.[3]

Further in 1948, mathematician and engineer Claude Shannon published his *"A Mathematical Theory of Communication"* in the in-house scientific journal at Bell Labs. The following year, Warren Weaver helped Shannon to publish the article as a book, and as a result this communications model is called both the Shannon-Weaver model and the Shannon model. The model, used today in social sciences, mathematics, and engineering, is linear and focuses on the physical transmission of information. It follows the creation of a signal by an information source (using a transmitter) to the reception of the signal by the recipient. The model also includes a "noise source," which can be anything that interferes with the integrity of the signal.[4]

In 1956, professor of communications George Gerbner proposed a communication model that built on both the Lasswell and Shannon-Weaver models and emphasized the important role that perception plays in communication as well as the transactional nature of communications.[5]

The Corporate Communication Strategy Framework presented in Figure 2.1 incorporates these and other communication models to provide a valuable framework for effectively analyzing corporate communications.

[2] Harold D. Lasswell, "The Structure and Function of Communication in Society," in Lyman Bryson, ed., *The Communication of Ideas: A Series of Addresses* (New York: Institute for Religious and Social Studies), pp. 203–243.

[3] Richard Braddock, "An Extension of the 'Lasswell Formula,'" *Journal of Communication*, 8, no. 2 (June 1948), pp. 88–93.

[4] Claude Elwood Shannon and Warren Weaver, *The Mathematical Theory of Communication* (University of Illinois Press), 1964.

[5] George Gerbner, "Toward a General Model of Communication," *Audio-Visual Communication Review*, 4 (1956), pp. 171–199.

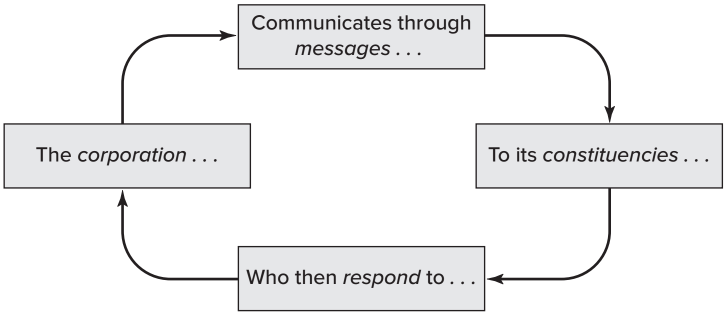


FIGURE 2.1
Consolidated Corporate Communication Strategy Framework

Looking at the framework, one can easily visualize the connections between each component. As communication theorist Annette Shelby[6] states: "The unique interrelationships of these variables determine which messages will be effective and which will not." These interrelationships will also determine the most effective tools for communicating the message. In addition, this framework is circular rather than linear, which reflects the reality that communication of any kind is an ongoing process rather than one with a beginning and an end.

Whether an organization is trying to enhance its reputation through social media, communicate a new health care plan to employees, or convince shareholders that the company is still worth investing in, it is critical to use a coherent communication strategy. An effective strategy should consider the effect that the message will likely have on its audience.

Developing Corporate Communication Strategies

Let's further develop each of these variables and apply them to real situations and see how they operate in practice.

Setting an Effective Organization Strategy

The first part of an effective corporate communication strategy relates to the organization itself. The three subsets of an organization strategy include (1) determining the *objectives* for a particular communication, (2) deciding what *resources* are available for achieving those objectives, and (3) diagnosing the organization's *reputation*.

Determining Objectives

An organization, like an individual, has many different reasons for deciding to communicate. For example, a company might want to announce to employees a change in its benefits package for the upcoming year. Let's suppose the organization has decided to eliminate retiree health benefits as a result of increasing health care costs. In this case, its objective is more than just announcing the change; it also must convince employees it

[6] Annette Nevin Shelby, "Organizational Business, Management, and Corporate Communication: An Analysis of Boundaries and Relationships," *Journal of Business Communication* 30, no. 3 (June 1993), pp. 241–267.

has a good reason for taking something away from them. Thus, the objective is to get employees to accept the change with a minimal amount of protest.

In contrast, let's suppose that a Japanese candy manufacturer has decided to enter the U.S. market. To stimulate interest in its confections, the company decides to produce a brochure that will show and explain what the product is and how it is an extension of Japanese culture. The company's objective is to create a demand among American consumers for something that they have not previously known about or wanted.

Notice that in both of these cases, the audience's *response* to the message is what is most important. That is the basis for defining an objective: *what does the organization want each message recipient to do as a result of the communication?* Management communication expert Mary Munter writes in her *Guide to Managerial Communication* that managerial communication is only successful if you get the desired response from your audience.[7] To get that response, you must think strategically about your communication, including setting measurable objectives for it. In general, effective communication can be a differentiator for a business and can drive strategy. It not only allows executives to connect with their constituencies, but also to solicit and act on feedback from those constituencies.

Deciding What Resources Are Available

Determining how to communicate about something like an employee benefits plan or the introduction of a new product depends heavily on what resources are available within the organization, including money, human resources, technology, and time.

Money In our earlier example involving cutbacks in health benefits for employees, the company must decide whether it is better to simply announce the program as clearly as possible to its employees—for example, through the company newsletter, via e-mail, or on the company's intranet—or to hire a benefits consultant with experience in helping other companies sell employees on benefits reductions. The first option looks less expensive than the second in the short term, but if the employees revolt because they feel they are losing something for no good reason, the company might end up spending far more than it would have if it had hired the more experienced consultant in the first place.

Most companies, unfortunately, often err on the side of short-term, inexpensive solutions to communication problems because they are not looking at the problem from the perspective of the constituency in question. This issue is similar to a problem individuals often have in communicating: they look at their own needs rather than the needs of their audience and end up having difficulty reaching their communication objective.

Human Resources Human resources are also an important factor in determining the success or failure of a company in achieving its objectives. Typically, too few are assigned to deal with communication tasks, and those involved are often inexperienced or unqualified.

Imagine a company that has just gone public and has decided to create an investor relations function to deal with shareholder relations and communication with financial analysts. It could assign one person to do all of these things, or it could decide that it really needs three. The best approach depends on the size of the company and its shareholder base.

[7] Munter, *Guide to Managerial Communication* (Upper Saddle River: Prentice Hall, 2013).

Let's look at the case of a well-known, multibillion-dollar company that turned this function over to one person with weak communication skills rather than devote two or three experts to deal with the different constituencies involved. In this company's case, it wasn't a question of whether it could afford to pay more people to do the job correctly; it was the lack of understanding about how important corporate communication really is and the limitations put on the human resources needed to accomplish a specific task.

This Fortune 500 company changed its approach after analysts started to downgrade its stock despite healthy prospects for the company's future. The CEO discovered that the analysts felt that the investor relations person at the company was not interested in giving them sufficient information to rate the company's stock. This perception led them to believe that something was wrong at the company. The investor relations person, on the other hand, was actually trying to do two or three tasks at the same time and simply could not keep up with the demands of the job. After this incident, the company hired two more professionals to handle the job properly, creating a more effective and efficient investor relations function, and its stock price shot back to where it should have been all along.

Technology As we will discuss in Chapter 5, the 4.57 billion people who are online today have fundamentally changed the way organizations connect with their constituents.[8] The organization now has a tertiary audience with whom to communicate—beyond employees, customers, and investors—and those are the millions of Facebook, Twitter, Instagram, and other social media users who have the power to shape a company's reputation. In an increasingly interconnected world, companies are less able to afford lapses in communication.

In 2012, for example, a cruise ship operated by Costa Crociere (owned by Carnival Cruises), sank off the Tuscan coast, claiming 31 lives and injuring 64. The CEO of Carnival Cruises at the time was informed of the disaster via his Twitter newsfeed. This was instead of a phone call, or even an e-mail, from his team on the ground in Italy. The response to the crisis from the home office, both on the ground and on social media, was similarly uncoordinated and was instrumental in compromising the company's public perception and its stock price. The case of Carnival Cruises highlights the importance of leveraging social media to provide a consistent, coordinated message to an audience beyond a company's immediate stakeholders.

Time Time, like human resources and money, is also a critical factor in determining an organization's corporate communication strategy. Let's look at two approaches for dealing with the same problem involving the allocation of time.

In the case of the Japanese confectioner mentioned earlier, the company decided to produce a brochure (with the help of a communications consulting firm) describing its product more than two years before it was actually necessary. So much time was involved, however, in getting everyone in the company to buy into both the proposed text and the design for the brochure that it took almost the full two years to produce an eight-page pamphlet. Cultural differences between Japanese and American business styles contributed to the tremendous amount of time needed to develop the brochure.

[8] "Global Digital Population as of October 2020," Statista, https://www.statista.com/statistics/617136/digital-population-worldwide.

For an American firm, it is unheard of to devote so much time to what would be viewed as such a simple project. American firms produce brochures like this from start to finish in a matter of weeks. But is this really a better approach?

The allocation of time, like the allocation of all resources, should be determined by what it will really take to achieve the company's objective rather than to seek a short-term solution (often to save money). In some cases, this might mean allocating more resources than the organization would like to achieve the desired result, but almost always, the organization is better off allocating the resources up front. Correcting mistakes in corporate communication after the fact can be a costly proposition. Too often, qualified communicators are brought in only after a crisis has erupted or to combat rumors that have materialized to fill a "communications void." This scenario is often the case when a company is in the midst of a merger or acquisition and employees hear details about the company's merger plans through media outlets before they hear it from the company itself. When rampant rumor mills and third-party information inspire fear and uncertainty among employees, productivity and customer service typically suffer, in some cases enough to reduce shareholder value.[9] The company then suddenly has a much larger—and potentially more costly—problem to solve.

Diagnosing the Organization's Reputation

In addition to setting objectives for communication and deciding what resources are available to accomplish that objective, organizations must determine what kind of image credibility they have with the constituencies in question. An organization's overall reputation with constituencies is based on several factors. We will get into this in greater detail in Chapter 4 when we talk about image, identity, and reputation, but it is also a critical factor in the development of all communication strategies, whether specifically related to image or not.

Image credibility is based on the constituency's perception of the organization rather than the reality of the organization itself. As an example, think about a university that is trying to generate positive publicity in the national media. If the university is not well known outside its region, this effort might prove very difficult. Its image credibility in this situation would be low because the national media would have limited experience with the institution compared with an institution that already has a national reputation. Thus, no matter what kind of resources the university puts behind this effort, it will be an uphill battle.

Worse than limited image credibility is credibility that is lacking or damaged. In the fall of 2010, top toy company Mattel had to recall 7 million of its Fisher-Price brand tricycles when ten young children reportedly injured themselves on the sharp, protruding plastic ignition key. During this same period, 3 million Fisher-Price toys were recalled due to concerns that small parts could cause choking. The 2010 recalls unfortunately followed a series of other reputation-damaging recalls for Mattel, including that of magnetic toys with faulty designs in November 2006, a recall of Fisher-Price-brand toys with high levels of lead paint in August 2007, and a recall of lead paint-laden Barbie accessories in September 2007.

[9] Michael Kempner, "When RUMORS Thrive Your Deal's in Trouble: Damage Control Techniques to Seize the Communications High Ground," *Mergers & Acquisitions*, May 1, 2005, pp. 42–47.

Once the most credible of toy makers, Mattel had damaged its credibility with investors and customers. During the height of the high-profile recalls, the stock value fell as much as 25 percent. However, Mattel executives took aggressive action to help upend the credibility crisis, opting for complete transparency and leveraging digital communications channels to deliver messages to constituents. Mattel's communications team also launched an advertising campaign with the headline "Because your children are our children, too," and spokespeople constantly reiterated the company's investigation of the safety breaches and communicated openly with the media. Mattel's response to the recalls of 2006 and 2007 likely reassured investors during the 2010 recalls: the company's stock price actually increased slightly immediately following the September 30, 2010, tricycle recall announcement.

Sometimes, damaged image credibility can result from circumstances beyond an organization's control, rather than from any specific actions or missteps by the company itself. Mattel fits this description to some degree because some of its recalls were caused by issues with overseas manufacturing partners. Although Mattel's executives should have ensured more stringent safety requirements and monitoring standards, there are really two credibility crises at play: the handling of the product recall by Mattel and the reputation crisis at Fisher-Price, which was responsible for regulating the overseas production of its toys.

Also victims of circumstances beyond their control, global energy companies faced a collective image credibility challenge in the wake of the Enron collapse. Many began having problems with bondholders, regulators, and investors following the scandal because they were presumed guilty of engaging in practices similar to those of the former energy giant. One possible strategy to combat this "guilt by association" would have been for a company to craft a communication program that would actively seek to distinguish it from Enron in a highly visible way.[10]

We can see that an organization's reputation is an important factor in setting a coherent communication strategy. For simple tasks, this is not a problem, but in other cases, the image credibility an organization has built with a specific constituency can make a huge difference in determining the success or failure the organization has in achieving its objectives. Companies increasingly are recognizing this fact and, accordingly, are dedicating resources to assessing their corporate reputation. One such company is FedEx. Once a year, the company's senior executives gather at its Memphis headquarters to assess the different risks the company faces. In addition to considering the possible financial impact and implications for the business continuity of each scenario, they examine what would happen to the company's reputation. "We believe that a strong reputation can act as a life preserver in a crisis and as a tailwind when the company is on the offensive," explained Bill Margaritis, FedEx's former vice president for global communications and investor relations. In addition to this hypothetical scenario analysis, FedEx conducts a survey to find out how the company is perceived by external stakeholders and performs a similar exercise with its employees annually.[11]

[10] Duncan Wood, "Not Cleaning Up Your Act Can Be Costly," *Treasury & Risk Management*, September 2004.

[11] Ibid.

The three considerations for creating an effective organization strategy—setting objectives, deciding on the proper allocation of resources, and diagnosing the organization's reputation—are the building blocks upon which all other steps in communication strategy depend. A second set of issues the organization can turn to is an assessment of the constituents involved.

Analyzing Constituencies

Analyzing constituencies is similar to analyzing your audience when you want to plan a speech or write a memo. This analysis determines (1) who your organization's constituencies are, (2) what each thinks about the organization, and (3) what each knows about the communication in question. We look at each of these in turn.

Who Are Your Organization's Constituencies?

Sometimes, the answer to this question is obvious, but most of the time, it will take careful consideration to analyze who the relevant constituencies are for a particular corporate message. Do not be fooled into thinking that it is always obvious who the main constituency is. Usually, constituencies come from a group that is primary to the organization, but a secondary group also can be the focus for a particular communication (see Table 2.1).

Companies have different sets of constituencies depending on the nature, size, and reach (i.e., global or domestic, local versus regional or national) of their businesses. Although a company may list its constituencies on a piece of paper, as in Table 2.1, it should resist thinking of them as too fixed or too separate. An organization's primary constituency or constituencies can change over time. In a time of crisis, for example, it may be wise for a company to focus more intently on its relations with the media—which it may normally consider a secondary constituency—to manage its reputation and attempt to minimize negative coverage. Additionally, constituencies should not be thought about in "silos," as the lines between them can blur. When employees are also shareholders in a company, for instance, they belong simultaneously to two constituency groups. For example, Starbucks formally blends employees and investors by offering all employees "bean stock" based on the number of hours they work, a practice that Starbucks began in 1991 and considers to be core to its mission.[12]

Companies should acknowledge and pay special attention to the role of their own employees as "brand ambassadors." From the consumer perspective, employees are viewed as highly credible representatives of a brand, and thus it is imperative that employees fully understand what the corporation aims to be in the mind of its customers and other constituencies to best serve as an ambassador.[13] Hilton has established itself as a leader in this area, ranking #1 in *Fortune* magazine's "100 Best Companies to Work For" list in both 2019 and 2020, becoming the first non-tech company to do so two years in a row. The company offers a wide range of benefits for its employees, from generous parental leave for mothers, fathers, and adoptive parents to a new employee stock purchase

[12] Starbucks press release: http://news.starbucks.com/2014annualmeeting/program-that-turned-employees-into-partners.

[13] "Special Report: Brand Trust in 2020," Edelman Trust Barometer, June 25, 2020, https://www.edelman.com/research/brand-trust-2020.

TABLE 2.1
Constituents of Organizations

Primary	Secondary	Tertiary

• Employees
• Customers
• Shareholders
• Communities
	• Traditional media
	• Suppliers
	• Creditors
	• Government
	  • Local
	  • Regional
	  • National
	• Influencers and activists
		• Primary and secondary constituents' social media connections

program for all levels of employees to a travel program that offers its people highly discounted rates. CEO Chris Nassetta has noted that, "We try to care for our people in the right way so they will care for our customers. And as a result of doing good things for our people, we are doing very well." Similarly, software company Salesforce has also consistently ranked high on *Fortune*'s list for over a decade. As a testament to the extent to which employees have enjoyed their tenure at Salesforce, and thus served as positive brand ambassadors, 52 percent of new hires come from employee referrals. Moreover, employees get $2,000 for every successful referral, with employees collecting a total of $7 million in 2019.[14]

However, constituencies can have competing interests and different perceptions of a company. For example, cutting employee benefits may be welcomed by shareholders but will likely be highly unpopular with employees. In addition, communications intended for one constituency often reach others.

The individual communication experience of one marketing vice president (VP) brings this last point to life. The executive VP to whom he reported had decided to cut the group's administrative support staff due to the increased use of technology to handle communications while professionals were away from their desks. This vice president detailed his plan for cutting the support staff by almost two-thirds in a memo to the vice president in charge of human resources. The plan involved laying off five assistants in the department over a period of six months. Many of them had been with the firm for several years.

As usual, the marketing VP drafted his thoughts in rough form and e-mailed it to his assistant, asking her to format the letter and place the final draft on his letterhead. Although his assistant was not one of the five affected by the layoffs, she couldn't help but empathize with her colleagues of many years, and within an hour, the marketing VP had a revolt on his hands. Now, with a constant news cycle that is aided and abetted by online communications, a scenario like this one could be prompted by information that gets into the hands of an influencer for example, as we see later in this chapter.

The aforementioned VP didn't intend for his assistant to be a part of his constituency, nor did he stop to think about her reaction to the change when he asked her to print the letter to the human resources VP. Nonetheless, she became a conduit to a more important constituency: the employees who would actually be affected by the plan.

[14] "100 Hundred Best Companies to Work For," *Fortune*, January 2020, https://fortune.com/best-companies/2020.

This simple example is instructive to organizations seeking to communicate at a more macro level, as well. Just as we cannot always control the flow of information to one constituency alone on an individual level, on the corporate level, the same set of problems arises.

What Is the Constituency's Attitude toward the Organization?

In addition to analyzing who the constituencies for a particular communication really are, organizations also need to assess what each constituency thinks about the organization itself.

We know from personal experience that it is easier to communicate with people who know and like us than it is with those who do not. The same is true for organizations. If a company has built goodwill with the constituency in question, it will be much easier to reach its objective.

The classic example of good corporate communication is Johnson & Johnson's redemption of the Tylenol brand in 1982, when poisoned capsules killed seven people in Chicago (see Chapter 10 for more on the Tylenol crisis). That the company was able to succeed against all odds—when people like advertising executive Jerry Della Femina and several other experts in communication declared Tylenol impossible to save at the time—was a tribute to the hard work the organization had done before the tragedy actually happened. The company was known in the industry, by doctors, by consumers, and by the media as rock solid—willing to stand by its products and do the right thing, no matter what the cost. In this case, the cost ran into the hundreds of millions of dollars when the company decided to recall more than 31 million bottles of Tylenol capsules.

Convincing people to buy a product that had been laced with cyanide was not an easy proposition, but because the company had the trust of many different constituencies, it was able to achieve its objective, which was to revive the brand. If people hadn't trusted the company, or if they had questioned its behavior in any way, this revival would not have been possible.

When goodwill or trust is lacking, communication can be a struggle. And companies cannot expect to be trusted until they prove themselves trustworthy through concerted actions that demonstrate care, concern, and understanding for their constituencies. As stated in "Authentic Enterprise," mentioned in Chapter 1 as a document produced by the Arthur W. Page Society:

> In addition to the familiar intermediaries and constituencies with whom corporations have interacted in the past, there is now a diverse array of communities, interests, non-governmental organizations and individuals. Many of these new players represent important interests, while others are not legitimate stakeholders, but rather simply adversarial or malicious. Regardless of motive, all are far more able to collaborate among themselves around shared interests and to reach large audiences. At the same time, companies and institutions themselves are seeking similar kinds of engagement with multiple constituencies . . . Constituent relationships have always been important for businesses and institutions, but the proliferation and empowerment of new kinds of stakeholders have profoundly altered the landscape. First, in a radically more transparent world, organizations can no longer be different things to different constituencies; an enterprise must be one thing across its entire ecosystem.
>
> Source: Reprinted with permission from the Arthur W. Page Society.

Building trust often must start from within the organization—by communicating up and down with employees, hearing them out on the topics that concern them, and making constructive changes based on their input. Companies with high levels of trust with employees are also those that take the time to clearly communicate the company's business goals to employees and help them understand the vital roles they play in achieving those goals.[15]

What Does the Constituency Know about the Topic?

In addition to the constituents' attitudes toward the company, we also must consider their attitudes toward the communication itself. If they are predisposed to do what the organization wants, then they are more likely to help the organization reach its objective. If they are not, however, the organization will have difficulty in trying to achieve its goals.

Consumers are often wary of new or unknown products. The Japanese confectioner mentioned earlier was a victim of such bias as it tried to convince Americans to buy a product that was well known and liked in Japan but completely foreign to Americans. In Japan, the company is seen as the highest-quality manufacturer of *wagashi*, or candy. The company, Toraya, is one of the oldest companies on earth. It can trace its roots back to the ninth century, and the same family has been in control of the firm for 17 generations. It has been serving the imperial family since its inception.

Given its long history and aristocratic roots, the president of the company assumed that the product would speak for itself in the U.S. market. Because no one else was around to compete with the firm, middle managers in charge of the U.S. operation assumed that its introduction of *wagashi* would be a huge success.

Unfortunately, they didn't think about how American palates would react to the taste of a candy made out of red beans and seaweed. Most of the people who heard about the product couldn't even pronounce its name, and when they tasted the gelatinous form of the product, known as *yokan*, they didn't like it.

To get consumers in the United States interested in the product, Toraya had to educate people about the role of *wagashi* in Japanese history and its exclusivity, as demonstrated by its aristocratic roots. Those who tasted the product in focus groups early in the process of its introduction to the United States likened the experience to the first time they had tasted caviar or espresso.

Though Toraya retreated from its initial foray into the U.S. market, closing its New York store in 2003, the company is now cautiously, but optimistically, looking to make a re-entry into the market, this time seizing upon American consumers' increasing interest in vegan-friendly desserts and the naturally vegan-friendly composition of their product. This second go-round has garnered attention from the likes of Bill Yosses, the former Obama White House Executive Pastry Chef, and Vogue, but only time will tell if the company will be able to address consumer sentiment more effectively.[16]

Japanese candy isn't the only example of misjudged consumer feelings. Take Walmart, for example. The retail behemoth tried to break into the German market for nine years before retreating with its proverbial tail between its legs in 2006. Walmart had 85 stores

[15] Shari Caudron, "Rebuilding Employee Trust," *Workforce Management*, October 2002, pp. 28–34.

[16] Zoe Ruffner, "This Vegan Japanese Dessert Is the Feel-Good Treat to Turn to This Holiday Season," *Vogue*, November 8, 2019.

in the country but eventually lost the battle to local rivals such as Aldi and Lidl because it failed to adapt to the German consumer and business culture. Among the many missteps: German Walmarts imported the U.S. practices of bagging groceries for customers at check-out counters and requiring employees to smile and greet every customer. The service-with-a-smile approach was seen as distasteful and unnecessary by shoppers. Executives also imparted the company's American policy of forbidding romances between employees. This restriction was seen as inappropriately intrusive by German standards. In misjudging its target consumer and subsequently abandoning its German business, Walmart took a $1 billion hit. Ironically, Lidl made the same mistakes with its own attempt at a U.S. expansion. Lidl kicked off its American expansion in 2017 but ultimately had to pull back on its efforts after failing to account for American shopping preferences, with CEO Klaus Gehrig describing the company's foray as a "catastrophe."[17]

Companies that try to sell an idea to the public are always in danger of failing as a result of the lack of information or the negative feelings consumers may have about it. The U.S. automaker General Motors (GM) realized, after several failed attempts to penetrate the U.K. market with Cadillacs, that rather than spending money on a U.K. advertising campaign, it was better served to hire an automotive public relations specialist to help the company educate people about Cadillac's new approach to the market, including an increased range of right-hand-drive models.[18]

When companies are communicating to their employees about something like a change in benefits—from a defined benefit pension plan to a cash balance plan, for instance—understanding what employees know about the topic, as well as how they feel about it, is critical. Without this insight, valuable time and resources can be spent on a communications campaign that ends up completely missing the mark. For example, a company may assume that employees' greatest concern is the competitiveness of their new benefit plan relative to other companies, when, in fact, they are most concerned about understanding how the new plan differs from the existing one. Absent this knowledge, the company's communication strategy may focus too heavily on the benchmarking issue and fail to address the issue of most concern to this constituency.[19]

Clearly, then, after a firm has set objectives for its corporate communication, it must thoroughly analyze all the constituencies involved. This requirement means understanding who each constituency is, finding out what each thinks about the organization, and determining what each already knows and feels about the communication in question. Companies should consider allocating a portion of their marketing budget to this kind of research. Armed with this intelligence, the organization is ready to move to the final phase in setting a communication strategy: determining how to deliver the message.

Delivering Messages Effectively

Delivering messages effectively involves a three-step analysis for companies. A company must first identify its (primary) target constituency, then select a communication channel, and third, choose what approach to take in structuring the message itself.

[17] Bryan Pearson, "German Lessons: What Walmart Could Have Learned from Lidl, and Vice Versa," *Forbes*, February 5, 2018.

[18] Richard Cann, "Cadillac Media Push Aims to Crack the UK," *PRWeek*, July 9, 2004.

[19] "Communicating Cash Balance Plans," *Watson Wyatt Insider*, April 2000, http://www.watsonwyatt.com.