Reset: Business and Society in the New Social Landscape

James Rubin, Barie Carmichael

Foreword

The result is a dichotomy of declining trust *in* and rising expectations *of* business.

Arthur W. Page, considered to be the first senior corporate public relations executive, observed in a 1939 speech on industrial statesmanship, “All business begins with public permission and exists by public approval.”

Throughout the century, a debate about the responsibility of business to society raged, with some (notably Milton Friedman) arguing that business’s only responsibility is to deliver a profit to its shareholders and others maintaining that business has a responsibility to create value for a broader set of stakeholders - including society at large.

The corporate social responsibility movement, which initially saw businesses seeking to conduct their affairs in socially responsible ways, is evolving into an era of conscious capitalism or shared value, in which businesses are expected to create not just customer and shareholder value, but societal value, as well.

Today, they contend, success depends upon hitting a three-way intersection: “Delivering a product or service that meets a customer’s needs through profitable business strategies that also benefit society.”

Today, however, a company wishing to manage its identity must attend to its corporate character, which includes purpose, values, and culture, along with business model, strategy, and brand. All of these must be defined and aligned to create an authentic, compelling, and unique identity. A company’s character, Rubin and Carmichael argue, is demonstrated by how it does business, with its employees and external stakeholders acting as its perpetual public auditor.

...the concept of inherent negatives...

Introduction

Declining Trust and Expectations

77 percent agreed that global corporations have a bigger impact on people’s lives today than they did ten years ago, 60 percent agreed that companies now serve some functions in society that were previously reserved only for government, and 68 percent agreed that it is as important to know how a company operates as it is to know what it sells.

Shifting Spotlight

Stakeholders have evolved from consumers of information to creators and movers of information.

Rather than philanthropy, business has a direct stake in a stable society with institutions that predictably work. Businesses cannot succeed in a failed society.

Chapter 1: The Business Trust-Expectations Gap

Whereas declining trust is old news, particularly for government and business, more significant is the concurrent increase in the public’s expectations of corporations on a global scale. This widening gap between falling trust and increasing expectations for big business coincides with both the rise of corporate social responsibility and the astonishing rapidity of new and social media as becoming both productive and disruptive factors.

Rising Expectations for a Bottom Feeder

Margin note: Small good, big bad

The primary factor driving these diverging opinions on business? Personal experience gained through direct engagement as a customer or an employee.

This degree of activism was substantial across all global markets, and, perhaps surprisingly, activism was markedly higher in Brazil, China, and India than in Canada, the United States, and Western Europe.

New Era of Both/And Business Strategies

“trust-expectations gap”

“Did you really think you could beat General Motors?”

As Douglas Holt remarks in *How Brands Become Icons*, to become iconic a brand must interact with the larger culture in a way that is relevant to significant tensions or change in society.

Primetime Worthy

For younger managers or even journalists who rely on social media for news, mid-twentieth-century media may now be an historical anecdote; yet an understanding of the dramatic changes in media is crucial to understanding the implications of the gap between the low trust in and high expectations of business.

Fragmenting the Corporate Narrative

On a global basis, the public is actively seeking information not only on products and brands but also monitoring the conduct and policies of companies themselves. As a consequence, in this new landscape, a corporate brand is becoming just as essential, if not more so, as product or service brands. The public is not simply actively seeking information; it is taking action on whether to purchase or boycott a product or service, as well as whether to accept or reject a position at a company or encourage someone else to do so.

Businesses that fail to factor this redefined relationship between business and society in their governance, strategies, and communications risk not only losing customers and public support for their license to operate, but also attracting and retaining: their next generation of talent.

Chapter 2: Closing the Gap in the New Social Landscape

In the coming years, modes of communication will change more than they have in the previous century as businesses adopt new ways of engaging stakeholders through social networks. Connecting effectively in this new landscape is less about refining and pushing out the perfect corporate message. Instead, it is more about a corporation's interactive exchanges with stakeholders and the quality and authenticity of the engagement itself.

Margin note: How?

Rules of Engagement 2.0

The architecture of this quickly developing outrage provides a compelling example of the web-enabled activist environment in which business now operates. Today, a global community of engaged information-seekers can quickly form communities of thought ready to act when their expectations of the role of business in society are not met. In July 2016, ;a web-savvy New Yorker, Mellini Kanatayya, converted her ongoing Facebook conversation with friends about EpiPen pricing into an online petition to stop the EpiPen price gouging. The petition was targeted at lawmakers and administered through the website Petition2Congress.com. In just 45 days, the petition garnered more than 80,000 signatures and generated more than 121,000 letters to Congress. Parent activists from websites like PeanutAllergyMom.com and AllergyKids.com escalated what had begun as an individual protest into a nationwide movement.

The Proofs of Choice: Actions Taken and Personal Experience

"The most potent contributor to trust is the commitment to taking meaningful action." The result: Trust must be earned through action not simply messaging. The primary factor driving the public's opinions of business today is personal ;experience and direct engagement.

Stakeholder Impact and the Business Model

As the University of Virginia Darden Graduate School of Business professor Edward Hess has shown, companies with the highest bottom-line growth are also those where all employees are aligned with the idea of the business, including understanding the company's business strategy.

Authenticity that Withstands Transparency

____As many corporations are realizing, employees are at the strategic center of an authentic corporation, creating greater interest in a more strategic approach to employee engagement.

Chapter 3: Inherent Negatives: Managing Risk and Reputation

Embedded Stakeholder Impact

In fact, according to date from the Institute for Crisis Management, nearly 78 percent of business crises in 2015 were not due to sudden external events but due to smoldering issues that escalated to crises when they became public. The degree of management control and responsibility is the key differentiator between sudden versus smoldering crises. While both categories of crises produce headlines, sudden crises are external events which are perceived as being beyond management control. Smoldering crises, the category in which inherent negatives belong, are perceived as being the responsibility and fault of a firm's leadership. "In extreme cases, and according to the Institute of Crisis Management database, it is in fact leadership decisions and actions that form the basis of most modern-day crises - not external threats or acts of God that we most frequently think of as a business crisis," explain Erika Hayes James and Lynn Perry Wooten.

The Embedded Flipside

The solution… lies rather in a dramatic reconceptualization of corporate social responsibility which transforms it into creating shared value.

"So Right and Yet So Wrong"

During the recent multiyear drought in California requiring residents to cut water consumption by as much as 36 percent, Starbucks transferred its Ethos water bottling operations from California to Pennsylvania for the duration of the California drought on ethical grounds, taking action to address the negative stakeholder impact. In contrast, several companies, including Nestle's Arrowhead and Pure Life brands, continues to source water in California for bottling, inciting more than five hundred thousand petitioners in 2015 to demand that Nestle stop those operations.

Anticipating Inherent Negatives

Instead, identifying inherent risks requires a concerted effort to expand a company's internal line of sight. Internally, developing a management culture that actively guards against the insularity of a corporate culture bubble starts at the top. CEOs and an executive team that actively and visibly seek out noconforming points of view set the tone by modeling desired behavior and making diverse points of view politically safe within the culture.

UPS and Facebook

While most customers know UPS through their familiar brown delivery trucks, 70 percent of the company's carbon footprint comes from elsewhere in its transit network.

Upstream and Downstream

In addition to inherent negatives embedded in the policies governing a product or service itself, a corporation seeking to anticipate inherent negatives through the windshield should also understand the stakeholder impact of its supply chain or life cycle, both upstream (including issues such as sourcing raw materials and supplier management) and downstream (including issues such as usage and disposal).

Producing a given quantity of bottled Coke takes approximately four times as much water as what ends up in a bottle of Coke.

Predicting risk, the premise that began this chapter as the enabling basis for the modern form of business, is not going to get any easier.

Chapter 4: Corporate Character

"I Must Resign from this Once Great Company"

She also criticized the inconsistencies between Rometty's letter to Trump and IBM's recruitment material, which declares that the company's future depends on realizing "an inclusive and welcoming culture." While Rometty referenced diversity and tolerance in an e-mail to employees regarding her letter to President-elect Trump, which Ms. Wood declared a "huge disservice."

In a similar scenario, Oracle employee George Polisner posted on LinkedIn his resignation letter to the Oracle CEO, Safra Catz, in protest of her decision to join Trump's transition team, an action taken without an explanation given to employees. "I am not with President-elect Trump," Polisner wrote, "and I am not here to help him in any way. In fact when his policies border on the unconstitutional, the criminal, and morally unjust I am here to oppose him in every way possible. Therefore, I must resign from this once great company."

From Corporate Identity to Corporate Character

Wally Olins, a pioneer of corporate branding, suggested that an organization is both understood and manifested through four vectors or transmitters: products and services, environments, communications, and behavior.

Collapsing Internal and External Boundaries

By early 2017, the cumulative impact from these incidents shared online was its stock trading at less than 50 percent of the ten-year high it had reached in 2013, which perhaps added to the reasons Amazon targeted it for acquisition.

Still, the credo inspires a culture where a national shortage of nurses is met with the company's offer to pay tuition for nursing school.

Pivotal Employee Stakeholders

In this new ecosystem, a key factor is the *relationship* between top management and employees, and seeing employees as an opportunity for investment, rather than as a cost, can only enhance an authentic corporate character in which corporate vision is shared.

The online social news platform BuzzFeed reported that employees, speaking anonymously after being warned by management not to speak to the press, met secretly to develop recommendations for Facebook management. "It's not a crazy idea. What is crazy is for him [Zuckerberg] to come out and dismiss it like that, when he knows, and those of us at the company know, that fake news has run wild on our platform during the entire campaign season," said one Facebook employee from its social networking division. Similarly, a former Facebook designer, Bobby Goodlatte, posted on his Facebook wall, "Sadly, News Feed optimizes for engagement. As we've learned in this election, bullshit is highly engaging. A bias towards truth isn't an impossible goal. Wikipedia, for instance, bends towards the truth despite a massive audience. But it's clear that democracy suffers if our news environment incentivises bullshit."

Competing for the Next Generation

Another factor driving the growing strategic importance of a corporation's employee engagement and communications has been the recruitment and retention of employees. This is particularly the case for millenials (those form from the early 1980s to the mid-1990s), who in 2015 became the largest share of the American workforce, and for Generation Z (those born since 1996) who will represent 40 percent of all consumers by 2020. Corporate character will be a high priority for the next generation of corporate leaders, who tend to be more loyal to core values than to a particular company, making corporate character central to recruitment and retention initiatives.

Boxed, an e-commerce startup competitor to wholesale clubs like Costco and Sam's Club, is similarly offering to pay the college tuition of its employees' children through a nonprofit foundation created and funded by its CEO, Chieh Huang. Referring to the company's nearly one hundred U.S. warehouse workers, Huang explained why this benefit was a better solution than a higher salary: "There is an issue of inequality of opportunity. If you can barely afford a car and then you get a double salary, maybe you can afford a car. But can you really pay four years of education for your children?" When some workers texted their spouses with the news, the response from one spouse was "You can never leave this company ever." As Huang explained, "These folks have dedicated themselves to our company day in and day out. I'm really nothing without them, so this was just my way of making the situation right."

An Always-On Character Audit

The history behind Nike's "swoosh" logo, which has adorned the clothing of superstar athletes more than once (just think of Tiger Woods's cap and shirt) was particularly fortuitous. Rather than consult a large design firm and numerous focus groups, Nike purchased its logo from a local artist for a sum that would not keep a teenager in sneakers for a season, and this became part of the story of the company's origins. A particularly fortuitous or historically resonant logo or tagline suggests a larger narrative.

Doing business requires executive leaders who model the stewardship of corporate character, asking uncomfortable, even inconvenient, questions about the alignment between a company's vision and values and its business strategies and policies as a way of doing business. Perhaps even more important, to build an internal culture that reflects the company's character, executive leaders must visibly reward and recognize employees who audit that alignment and flag strategic inconsistencies and make it politically safe for them to do so. As the many examples in this and other chapters illustrate, it is better to correct course before a divergence from vision and values becomes newsworthy, goes viral, and then must be managed through the rearview mirror, not the windshield.

It is not so much inconsistency per se that erodes corporate character. Companies, like people, make mistakes. Rat her, it is the failure to recognize and correct the business decisions that diverted an organization from its vision and values that erodes character.

Chapter 5: The New Corporate Branding

As with corporate character, a compelling corporate brand becomes more than its attributes or the sum of its parts. It not only represents how a corporation demonstrates its values and strategies through its actions but also becomes the primary connection between a stakeholder's feelings and perceptions of the organization.

This chapter, however, makes the case that the new social landscape has fundamentally reset the business of corporate brand building.

The DNA of a Corporate Brand

However, a significant hallmark of the new business environment is that successful brands take on meaning through the fluid interchange between internal and the external stakeholders.

A stronger way to state the notion of brand promise is to say "a brand contract," a contract between stakeholders on one hand and the brand as the expression or extension of the corporation on the other.

Shifting Control of the Brand

Just as significant, in the social media ecosystem, consumers shape the corporate brand through their experience with the corporations products and their perceptions of the corporation's business behavior, policies, and practices.

Shared Advocacy

The four elements in the model are not separate but build on each other: Meeting stakeholder expectations by aligning corporate behavior with words is a minimum requirement, without which there would be no basis for authenticity. Authenticity is achieved by an organization doing what it says it will do, reflecting the words and behavior of the entire organization. This includes not only executives' words and actions but also service representatives' online chats with customers or flight attendants' exchanges with passengers during a flight. In the wired world, every personal experience counts and can quickly become a symbol of a corporation's character. Organizations that act authentically and with integrity build trust with stakeholders. Trust alone, however, is insufficient to build an enduring brand without attachment - a personal, emotional connection that builds brand loyalty.

The pinnacle of performance for an enduring champion-brand company in the new business environment is advocacy - not advocacy in the sense of lobbying or lawyering, nor isolated to a for-profit corporation's strategic philanthropy, but advocacy that represents the common interests and values shared by both a for-profit corporation and society. In fact, this definition of advocacy turns the long-followed marketing practice of trying to build brand advocates on its head. Advocacy in this context means being a corporation being *for* something that is directly relevant both to advancing the corporation and addressing a societal need. It represents a high bar: To build a strong and enduring relationship with society, a corporation has a self-interest to champion matters that are important to both itself and society - a shared advocacy.

Taking Positions

L.L.Bean, which had not endorsed any candidate, found itself the target of an online boycott (referred to with the Twitter hashtag #GrabYourWallet) after an heiress to the Bean fortune became a public advocate of and donor to a pro-Trump political action committee. The L.L.Bean online boycott triggered a tweet from Donald Trump encouraging support for the company, which served only to increase the controversy's visibility. New Balance found its brand similarly caught in the partisan crossfire, with a brand boycott accelerated by a neo-Nazy blogger calling New Balance shoes "the official shoe of white people." The stunning velocity of these boycotts - no matter the inaccurate, confusing, or nuanced facts involved in triggering them - demonstrates that any corporation and corporate brand are now intricately woven into the social fabric of popular culture.

Business as a Force for Social Change

While a B Certified Corporation can be any type of for-profit legal entity, for example a for-profit law firm, a benefit corporation is a type of corporation authorized by thirty-one states in the United States and the District of Columbia, thereby providing the legal protection of a government recognized legal entity. A benefit corporation's directors and officers are required to consider the impact of their decisions not only on shareholders but also on society and the environment. Patagonia is both a B Corp, first certified by B Lab in 2011, and a benefit corporation as of the first day in 2012 when that status became legally effective for California-based companies.

Balancing the Interests of Self and Society

This can be seen in one of Coca-Cola's more forward-leaning examples of sustainability, the EKOCENTER. These self-contained units, originally constructed from shipping containers, are brought to remote locations in Africa, Asia, and South America that do not have town centers. They provide water purification, electricity, and Internet access, and, while not branded with a logo, they also have Coke for sale. They aim neither to make money or lose money. The EKOCENTER lies perhaps somewhere between philanthropy and corporate brand building.

All of this is part of Nooyi's philosophy for conducting business in the twenty-first century in a way that unites and advocates for the shared interests of business and society. She states, "To succeed in today's volatile and changing world, corporations must do three things exceedingly well: focus on delivering strong financial performance, do it in a way that is sustainable over time and be responsive to the needs of society."

Shared Solutions

Unilever's focus on finding shared solutions even extends to changing its customers' behaviors. The company found that 68 percent of the greenhouse gas emissions from the carbon footprint of two thousand of its products occurred once the products were downstream in the hands of customers, primarily from heating water; for example, heating water for tea, washing one's hands with soap, and washing one's hair with shampoo. One solution to reducing the downstream carbon footprint from consumers using its existing products is to change consumer habits, like encouraging shorter showers. Another is to invest research and development in profitable new products specifically designed to consume fewer natural resources when used. For example, Unilever's dry shampoos work when combed through the hair, not as a total replacement for a traditional hot-water shampoo but as a water-saving, convenient alternative in between shampoos.

Small and Medium-Sized Enterprises

Whether for large or small businesses, in today's landscape, the new corporate brand accrues in value based on the quality of a corporation's stakeholder relationships, with the stakeholders themselves driving the corporate brand narrative: Customers shape a brand through their experience with it, employees through their relationships with both peers and management, nongovernmental organizations through their public comments on the organization's behavior, and so on.

Today, sustainable and enduring corporate brands must profitably deliver products and services in a way that also benefits society, addressing the intersection of where its operations, scale, and capabilities can also positively transform unmet social needs.

Chapter 6: Reputation Lost and Found

Crowdsourced Ratings and Rankings

Customer reviews posted on mega sites like Amazon provide real-time ratings not only of a product but also commentary on the corporation behind it, including the responsiveness of a company's customer service employees and its track record of honoring warranties.

Rather than sudden events like product tampering, according to the Institute for Crisis Management's annual reviews, crises from smoldering issues within management's control are more common, but often not detected before they erupt. Wells Fargo's fraudulent banking account scandal, for example, smoldered within the company for years without substantial management intervention until it spiraled into a crisis due to a *Los Angeles Times* investigative report published in 2013.

Finding Common Ground

To give one example, the 2016-2017 fake news controversy involving Google or a social media giant like Facebook demonstrates that the "stickiness," visibility, and attractiveness of oppositional crises are just as relevant now as they were during the Aetna crisis, which occurred just at the cusp of this new era. In an oppositional crisis, businesses that get baited into prioritizing "winning" the debate by defeating their critics will only ensure the debate continues. That mindset puts them on the defensive, responding to critics who then ultimately control the narrative. The media - social media, establishment media, mainstream media, alternative media - welcome that approach. Controversy is not only urgent an interesting. It drives media revenue.

A key lesson from Aetna's crisis management strategy, however, is that the company did not seek to win the debate, but to end it through a business strategy based on finding common ground.

Dow Corning's crisis was focused on the company's silicone breast implant products, which never represented more than 1 percent of its business. The insularity of being a privately held, predominantly business-to-business company combined with the assumed limited business impact of breast implants left the company unprepared for a tsunami of public outrage when the trial bar invested its tobacco and asbestos winnings into their next mass litigation target.

Before and After

It was not a matter of Dow COrning suddenly adopting more proactive communications strategies, as some analyses of the breast implant crisis case had surmised. Instead, the change was enabled through a new management approach to the crisis through critical strategic business decisions and constructive actions first initiated in 1992, with the results from those decisions and actions slowly emerging in 1995.

Asking Unasked Questions

The seeds of change planted from the constructive actions taken in 1992 moved the science on breast implants forward, away from the circus environment of mass tort litigation. Having articulated the constructive next steps toward a solution, the media frenzy stopped nearly immediately. By 1994, a Mayo Clinic study was published showing no risk for connective tissue disease in women with breast implants. By December 1995, more than twenty studies not funded by Dow Corning had been published globally from a variety of institutions, all declaring the same result. By 1996, courts began appointing expert panels to review the science, exercising their judicial gatekeeper responsibility to determine what was admissible, reliable scientific evidence to present to a jury. Plaintiffs' experts who had previously made a lucrative career testifying in breast implant trials were no longer meeting the judicial criteria for qualified experts.

Finally, in 1999, at the request of Congress, the prestigious Institute of Medicine (now the National Academy of Medicine) reviewed the science on breast implants and declared that toxicology studies on silicones did not provide a basis for breast implant health concerns, nor did the evidence from epidemiological studies.

Applying Lessons Learned

Aetna's and Dow Corning's lessons learned in restoring their reputations have important similarities directly applicable in the new social landscape: a multifunctional executive management team with the authority to strategize and implement a platform of constructive solutions leading to a common ground with critics and stakeholders; a strategic pivot from a defensive posture with critics to a position of advocating what the company is for, now what it is against; and a leader and leadership team able to understand the stakeholder perspective, offering a new lens through which the crisis could be understood, managed, and communicated.

Chapter 7: Resetting the Sweet Spot

A New Executive Leadership Mindset

Anticipating stakeholder impact in this new era requires ongoing vigilance as a way of doing business, but understanding that impact can be illusive. In their thought-provoking report, *Thinking the Unthinkable*, authors Nik GTowing and Chris Langdon interviewed 60 prominent corporate, public service, and political leaders regarding new vulnerabilities they are facing. The majority of those interviewed argues that today's speed of change requires new executive leadership skills to anticipate strategic surprises. In particular, the executives interviewed warned of a leadership aversion to address "unpalatable" risks to their business, creating a "willful blindness" to disruptive trends obvious to some, particularly millennials.

Resetting the Sweet Spot

Delivering a product or service that meets a customer's needs through profitable business strategies that also benefit society.