Seventh Edition

CORPORATE COMMUNICATION

Paul A. Argenti

Mc Graw Hill Education

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Paul A. Argenti
The Tuck School of Business at Dartmouth

Mc Graw Hill Education

CORPORATE COMMUNICATION, SEVENTH EDITION

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For my amazing family: Babydolly, Mimi,
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Preface to the Seventh Edition

This book grows out of more than 35 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 35 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 35 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 identities and images, 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 60 years and their implications for corporate communication. Although attitudes about business have never been totally positive, they have reached an all-time low in recent years: Mistrust of and skepticism about corporate entities are high, as are expectations that companies will "give back" to society through philanthropy, community involvement, or environmental protection activities.

In the Google in China case, we see how one company had to compromise its values to do business in one of the fastest growing markets in the world.

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 Container case, returning to this edition, 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 Sweet Leaf Tea case provides an excellent example of how a company used its communication function to deal with a difficult situation.

Chapter 4, "Identity, Image, Reputation, and Corporate Advertising," describes the most fundamental function of a corporate communication department: to reflect the reality of the firm itself through visual images and the right choice of words. The study of identity and image has blossomed in recent years as graphic designers have worked with companies to develop the right look for a particular approach to the marketplace. Additionally, corporate reputation is gaining increased attention as consumers and investors take a more holistic view of companies and their activities, such as corporate social responsibility.

Organizations also reflect their image and identity through advertising. We end this chapter by looking at how companies use corporate advertising to sell the organization as a whole, as opposed to just the products or services they offer to the public. Organizations use corporate advertising for a number of reasons: to enhance or alter their image by developing a corporate brand, to present a point of view on a topic of importance to them, or to attract investment.

The case for this chapter allows students to look inside Jet Blue's Valentine's Day disaster in 2007.

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 Westwood 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 Coca-Cola in India as it attempts to work its way out of a crisis in a case involving accusations of environmental contamination in its products.

What Is New to the Seventh Edition?

The seventh 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.
- Increased emphasis on corporate responsibility issues throughout the book.
- Additional recommendations for crisis communication.
- Timely analysis of the challenges that companies are facing today in this time of low consumer confidence, anticorporate sentiment, and the challenges that ensue from scrutiny through social media.

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. Thus, companies cannot get by on statements such as, "What's good for General Motors is good for everyone" or "If we build a better mouse trap, customers will beat a path to our door." Maybe not, if they don't know who you are.

Third, information comes to us in more beautiful packages than it did before. We now expect to see glossy annual reports and dazzling websites from major corporations. We don't want to walk into grimy-looking stores even for our discount shopping. Gas stations are modern looking and have been "designed" from top to bottom by high-profile New York design firms. 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.

I am sure that 20 years from now, managers will come to realize the importance of an integrated, strategic communication function. No doubt, much will have been written about the corporate communication function, and most complex organizations will have a corporate communication department with many of the subsets described in this book. Until then, however, I hope you enjoy reading about this exciting field as much as I have enjoyed chronicling its development.

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.

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2015

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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 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 popular culture. Next, we turn to the effects of globalization (and the antiglobalization backlash) 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

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

	1975	1985	1995	2005	2014
Big Business	34%	32%	21%	22%	21%
U.S. Congress	40%	39%	21%	22%	7%
U.S. Supreme Court	49%	56%	44%	41%	30%
Military	58%	61%	64%	74%	74%

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

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

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. 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.

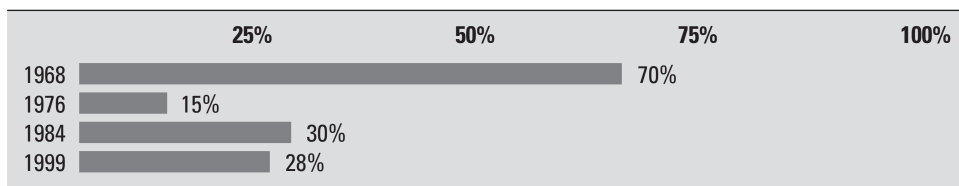
As you read this, you may be asking yourself whether the 1980s and 1990s, which together constituted the final economic boom of the twentieth century, restored America's faith in business to where it had been in the 1960s. They did not, and in 2011, a Harris Poll asking the same questions found the responses to be as follows: trust in major companies, 13 percent; U.S. Congress, 6 percent; White House, 19 percent; and Supreme Court, 24 percent.[1] These percentages all decreased from 2010, indicating a confidence crisis that has reached critical mass; the 2010 results for the aforementioned institutions were 15 percent, 8 percent, 27 percent, and 31 percent, respectively.[2]

[1] Harris Poll May 2011.

[2] Harris Poll March 2010.

TABLE 1.2
Does Business Balance Profit and Public Interest?*

Source: *Yankelovich Monitor.*



*Percent yes responses.

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.)

The nuances of American distrust of business are further explored by Yankelovich Partners through the following findings:

- 80 percent of surveyed respondents believe that "American business is too concerned about profits, not concerned about responsibilities to workers, consumers and the environment."
- 70 percent believe that "if the opportunity arises, most businesses will take advantage of the public if they feel they are not likely to be found out."
- 61 percent believe that "even long established companies cannot be trusted to make safe, durable products without the government setting industry standards."[3]

A more recent study commissioned by the Public Affairs Council finds that the American public still believes companies are failing to correctly prioritize their constituencies: 83 percent of respondents believe that businesses should put customers, employees, or their communities first; 81 percent of responders feel that companies are instead valuing top executives or shareholders first.[4] The source of the disconnect between upstanding business practices and the current business reality could be one of many factors. First, we must consider the economic instigators.

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.[5]

[3] J. Walker Smith, Ann Clurman, and Craig Wood of Yankelovich Partners, Inc., *Point,* February 2005, http://www.RacomBooks.com; results from Yankelovich MONITOR.

[4] Public Affairs Council, *Public Affairs Pulse*, 2011.

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

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."[6] 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 AFL-CIO, in 1980, CEO pay averaged 40 times the pay of the average American worker, and by 2013, it averaged 331 times the pay of the median worker, for an average of $US 11.7 million per year.[7] In October 2011, the Congressional Budget Office reported that the middle 60 percent of the American population experienced a growth in household incomes of 40 percent between 1979 and 2007 (after taxes and adjusted for inflation), while the top one percent of earners experienced a growth in household incomes of 275 percent. The study also confirmed that the after-tax household income of the top 20 percent of earners was greater than the combined after-tax income of the remaining 80 percent of workers. While top earners enjoy lucrative compensation packages, today 15 percent of Americans live in households receiving food stamps, and 48.6 percent live in households receiving some form of government assistance, according to 2010 Census data.[8] Nobel Prize–winning economist and *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]

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

[6] Ibid., p. 106.

[7] "Executive PayWatch," http://www.aflcio.org/corporate-watch/paywatch-2014.

[8] Sara Murray, "Nearly Half of U.S. Lives in Household Receiving Government Benefits," *The Wall Street Journal*, January 17, 2012.

[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.

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.[11] 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.[12]

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.[13] Occupy Wall Street organizers made extensive use of social media and published a daily newspaper to communicate news and marching orders with 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.

At the very beginning of the protests, the Occupy Wall Street movement received minimal television and newspaper media coverage, but much coverage through social media such as Twitter. Indeed, through the years, the traditional news media have played a major role in conveying, filtering, and obstructing messages from corporations as well as government and activist groups (see Chapter 6 for more on the media's influence on business). By the late 1990s, the Internet also began to shape attitudes toward business as activist groups gained access to a broadcast forum for their arguments against business. Today, environmental activists, animal rights groups, and shareholder rights proponents have the ability to get messages out instantaneously to like-minded individuals throughout the United States and the world. In the case of the Occupy Wall Street movement, the videos of protestors posted on YouTube and the flood of tweets coming out of Zuccotti Park quickly became "too viewed" for traditional media to ignore.

[11] Stephen Grocer, "Wall Street Compensation–'No Clear Rhyme or Reason,'" *The Wall Street Journal*, July 30, 2009.

[12] Louise Story, "Topics: Executive Pay," *The New York Times,* December 5, 2011.

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

Although the media and the Internet are powerful channels for views on business to be expressed and debated, nowhere are the attitudes that prevail in the external environment more clearly defined than in television and film.

Hollywood: A Window on Main Street and Wall Street

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 in the United States, cinema and television over the past several decades have reflected some of the public's negative attitudes about business.

For many Americans today, what they see in fictional or "factional" accounts in films and on television helps shape their attitudes more than educational institutions. In fact, Americans spend far more time in front of the television set, or watching media content online, than they do in the classroom. According to research undertaken by a number of different organizations, the average American household spends approximately 40–50 hours per week watching television programming. Many have written about what this habit has done to American society in a broader context over the past 30 years, but in this textbook, we focus on the relationship between popular culture and business.

The Media Institute, a research organization funded by corporations, has been tracking media coverage of business for more than 20 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 get their news from television. 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. This information all comes from television, all of it is bad, and the net result is the reinforcement of negative perceptions of business.

Films also contribute to a negative business image. One of the most successful films of the late 1970s was called *The China Syndrome*, a movie about a narrowly averted meltdown at a nuclear reactor. A week after the release of the film, a real nuclear accident occurred at Three Mile Island. While everyone would agree that Metropolitan Edison did a poor job of communicating about this accident, few would say that the company was as bad as the one portrayed in the movie. For many Americans, however, the two events were linked, which made their reaction to the events at Three Mile Island that much stronger.

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.

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."[14] 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.[15] 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."[16]

Disintegrating national borders, coupled with the liberalization of trade and finance in today's Global Village, also have fostered an increase in cross-border corporate mergers and the number of multinational corporations. Today, companies

[14] 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).

[15] 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.

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

tend to specialize in their core competencies and outsource what remains or, alternatively, merge to integrate the suppliers into their own organizations. The 2011 PricewaterhouseCoopers Global CEO survey reveals that 59 percent of CEOs were planning to deploy more staff on international assignments, 34 percent planned to complete a cross-border merger or acquisition, and 31 percent planned to outsource a business process or function.[17]

With international mergers and acquisitions diluting once-definitive borders and empowering big business further, many individuals and communities object to the enormous political clout that large corporations wield today. This sentiment gave rise to the "antibrand" and "antiglobalization" movements that flourished in the mid-1990s—a decade in which global companies began to replace government bodies as the primary target of many activists worldwide. This movement continues to percolate today, as supported by Yankelovich Partner Peter Rose's comments during a January 2007 speech made to the Inland Empire United Way: "Ten years ago, 52% of Americans said that 'the brands you buy tell a lot about the person you are.' In 2005, just 41% agreed with that statement." He continued by rationalizing this shift in perspective, referring to the following quote from the Clue Train website (launched in 1999):

> A powerful global conversation has begun. Through the Internet, people are discovering and inventing new ways to share relevant knowledge with blinding speed. As a direct result, markets are getting smarter—and getting smarter faster than most companies. These markets are conversations.

Rose then incorporated the concept of brands into this "conversation," saying, "The Internet hasn't put brands into the conversation. The Internet has simply changed the technology people use to come together with one another. In the process, the Internet has emerged as the new medium of Social Engagement. . . . Looking ahead, the success of brands will be tied to the success in connecting people with each other, not to connecting people with brands."[18]

This analysis circles back to the public's overwhelming distrust in business as it continues to gain momentum in a global context and the subsequent challenges businesses have in delivering their brands to an accepting audience. The 2015 Edelman Trust Barometer revealed that 51 percent of Americans say they trust business to do what is right.[19]

This "global conversation" also accentuates the volume at which these negative feelings can be heard. With it, the antiglobalization movement extends beyond traditional union bodies to include young and old consumers, concerned parents, and vocal student activists alike. 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

[17] 2011 PricewaterhouseCoopers Global CEO survey.

[18] Peter Rose, Partner, Yankelovich, speech delivered to the Inland Empire United Way, January 31, 2007.

[19] 2015 Edelman Trust Barometer.