

First-of-the-Year Issue

WITH HEIGHTENED RISK & UNCERTAINTY, THE FOCUS IS ON THE EXTERNAL ENVIRONMENT; ISSUES MANAGEMENT, GLOBALIZATION AND STAKEHOLDER RELATIONS GET MORE ATTENTION

Risk and uncertainty characterize the year 2002. That's because of the political and social ramifications created by 9/11 and the economic impact of the recession. Increased attention to crisis management, especially contingency planning, is one reaction. But public relations can also satisfy management's need to anticipate and prepare for a wide range of possible future events by **intensifying its issues management activities, trying to understand the major upheaval caused by "the clash of civilizations," and reinforcing stakeholder relationships.** These are some of the ways public relations can update its traditional role of helping management to reduce risk and uncertainty – and, as some add, to maintain social stability.

¶ ISSUES MANAGEMENT

More attention will be given to scanning and monitoring an organization's external environment to identify emerging issues and trends, which is step one of the issues management process. **The sweep of "what's happening out there" will become wider and more global.** This trend had already been identified by T. Traverse-Healy, a well-known British public relations professional, who added that increased monitoring would accompany the development of new systems of corporate accountability. Seeing the corporation as the dominant institution of our time, he also predicted that the debate over applying democratic principles to corporate governance would gather momentum.

Every industry will have its own list of **key issues.** Some that appear to be gathering momentum are:

- Food safety
- Labeling of genetically-modified foods
- Pricing of pharmaceutical products
- Global warming
- Conflict of interest between auditing and counseling arms of accounting firms
- Immigration policies
- Rising cost of healthcare
- Consumer privacy

¶ GLOBALIZATION AND THE CLASH OF CIVILIZATIONS; PROPAGANDA WAR INTENSIFIES

Resentment toward globalization, accompanied by anti-Americanism, has been partly blamed for the 9/11 acts of terrorism. The broader context is "The Clash of Civilizations," a thesis advanced by Samuel Huntington, an eminent Harvard University professor (see "Looking the World in the Eye" in the December issue of *The Atlantic Monthly*). He states that whereas the West has generated



ideologies, the East has generated religions. He explains that religion is now the more menacing force on the international scene. Referring to Coca-colonization (or what others call McWorld), he says that our belief in the universality of Western culture and that it ought to be the culture of the world, is a conceit.

With reference to 9/11, Huntington says the world in which we live “is a dangerous place in which large numbers of people resent our wealth, power and culture, and vigorously oppose our efforts to persuade or coerce them to accept our values of human rights, democracy and capitalism.”

To counter the vitriolic hatred of America, **U.S. gov’t officials are rethinking their propaganda war in Muslim countries.** Officials have conceded that, so far, they have lost the battle for Middle Eastern public opinion. The U.S. has almost no cultural organizations there and, having shut the U.S. Information Agency as a separate department, the U.S. now relies on its main broadcasting arm, Voice of America. Unfortunately, its Middle East audience share as of Sept. 12 was only 2%. Condoleeza Rice and Colin Powell have had to rely on the Arab broadcaster *Al Jazeera* to get their messages across. But these attempts may have backfired because the U.S. has little credibility in the Arab world.

RESURGENCE OF CONFIDENCE IN GOVERNMENT

The credibility of government in the U.S., however,

has been rising. Within weeks of 9/11, the number of people saying they trust the government to do what is right most of the time hit its highest level in 30 years – 55% in a New York Times/CBS News poll. That 22-point rise in trust is considerably larger than the 7-point rise during the Gulf War. The main comparison of the new level of trust is with the 1950s, when 3/4ths of Americans believed government did a good job. Beginning in the early 1970s, however, trust began dropping, hitting one in four by 1980 and remaining at 26% as recently as 1998.

¶ STAKEHOLDER MANAGEMENT – A VALUABLE INTANGIBLE ASSET THAT NEEDS FURTHER INVESTMENT

Developing and strengthening relationships with an organization’s primary stakeholders – investors, employees, community citizens and customers – has become more important, even as relationships have become strained in this era of risk and uncertainty. The social contract between employers and employees has radically changed, placing a greater burden on employees to plan for their own future. Trust in corporate financial statements has been undermined by deceptive accounting practices and by failure of accounting firms to spot or report them. Investors question to what extent they can rely on “certified” financial statements. Communities have often been abandoned by companies that find it more profitable to locate operations elsewhere. Consumers worry about safety and invasion of privacy.

Excellent stakeholder relationships contribute to goodwill – that accounting term which is included under intangible assets in a firm’s balance sheet. *In the new economy, these assets are often more important than physical assets in determining a company’s market value.* A 1997 study by Ernst & Young titled *Measures that Matter* found that up to **65% of the investment decisions made by mutual fund managers were based on these intangible assets as compared to company financial info.**

BUSINESS LITERATURE EMBRACES STAKEHOLDER MANAGEMENT

Public relations

professionals have long sought to include the study of public relations in the business school curriculum. Most references to public relations in the business literature are limited to the publicity/media

relations function, i.e., one-way communication. But after Edward Freeman introduced the concept of stakeholder relations in 1963 as part of Stanford Research Institute's corporate planning project, business writers have embraced the term. Moreover, they have asserted its superiority over public relations, although what they essentially did was to give pr a new name that was more acceptable to the business community. The supposed superior features of stakeholder relations:

- 1) **Includes more than conventional publics**, e.g., activist groups who take the initiative in confronting corporations.
- 2) **Considers connections** not only between a firm and its individual stakeholder groups – as reflected in the traditional wheel model with the firm at the hub and publics as spokes – but connections among and beyond immediate stakeholder groups; e.g., employees are also members of the community and, in some cases, of labor unions.
- 3) **Extends company social responsibility** beyond its immediate stakeholder group; e.g., Nike had to assume responsibility for the child labor and human rights abuses of its overseas suppliers.
- 4) **Seeks a fairer balance in the benefits provided to various stakeholders**; e.g., Enron forced its employees to limit their retirement benefits to company stocks while top execs freely sold some of their stock holdings.

ARE PR PEOPLE KNOWLEDGE WORKERS?

The future lies with knowledge workers who, like investors who provide money, also provide capital in the form of **intellectual currency**. Knowledge workers are defined as those who require formal and advanced schooling to perform their jobs. Aside from the traditional professionals, there are now growing numbers of workers whose jobs require specific training; among them are X-ray technicians, physiotherapists, and ultrasound specialists. Public relations practitioners are also knowledge workers.

Economists have long stated that rewards are greatest for those people who are most highly specialized. But the downside is that rewards are subject to the risk that demand for a particular specialization may drop. Some IT workers are now enjoying the high demand for their services despite the recession. CIOs at leading energy companies say that without new IT applications, expansion into new areas would be impossible. Texaco, among others, found it necessary to create an online repository of skilled personnel, which, to date, contains profiles on 700 to 1,000 critical employee experts.

Some knowledge has become so specialized and increasingly expensive, says Peter Drucker in an insightful 20-page report on “The New Society” in *The Economist* (November 3), that no single organization can afford to “maintain enough critical mass for every major task within an enterprise.” Also, such specialists become incompetent if they are used only intermittently – much as heart surgeons would lose their touch if they only performed a few operations each month. Highly skilled or highly knowledgeable specialists must be kept busy and often shared – one of the purposes of consulting firms.

HOW SPECIALIZED IS THE PR FIELD? NICHE FIRMS

Some pr activities, like media relations, have become commodities and depreciated in value, said Harold Burson; strategy is what counts. In

describing the future corporation, Drucker sees the **importance of strategy** as well as developing a corporate identity. **He sees a top management that is powerful, accountable and separate from**

operating management. “This top management’s responsibilities will cover the entire organization’s direction, planning, strategy, values and principles....” *These top people will try to establish their organization’s unique personality. “And that may well be the most important task for top management in the next society’s big organizations,”* says Drucker.

He also recognizes the **importance of organization development.** “To survive and succeed, every organization will have to turn itself into a change agent” – and create change. *PR firms that can help a company to makeover its culture may be among those specialists in high demand. Although giant pr firms are adding these specializations to their list of services, there is also room for niche firms to innovate.*

EMPLOYEE COMMUNICATIONS AT GM

Last July, General Motors announced that Gary Grates, pres. of GCI Boxenbaum

Grates, part of the GCI Group public relations unit of the Grey Global Group, would manage its communications with employees; Grates reports to Steven Harris, GM’s vp for communications. “General Motors’ decision to farm out a crucial management task takes an emerging corporate trend to a new level,” comments *The New York Times*.

Is employee communications really such a highly specialized activity? Harris thinks so, saying that Grates “has leading-edge theories about how to change cultures.” One innovation was to introduce a monthly report, Messages from the Marketplace, which describes changes in the auto industry and the economy and how they affect workers.

Companies have always gone to consulting firms on individual projects involving mergers, layoffs, cost-cutting drives and crises. For example, Delta Air Lines hired Banner McBride, the workplace communications arm of the Hill & Knowlton unit of the WPP Group, to help in its rebranding. “We needed some help in shaping the messages and in the strategy for presenting it to employees,” says Dan Lewis, Delta’s dir. of corporate communications. What’s different about GM’s move is that it is outsourcing an essential stakeholder relationship. It is not taking advantage of the in-house opportunity to engage in day-to-day interpersonal communications. Is that wise? **Public relations practitioners should be able to qualify as change communicators – and as people with knowledge in the behavioral sciences.**

MEDIA UPDATE: PUBLIC IMAGE OF THE PRESS IMPROVES; IS A NEW EPIC OF PUBLIC INFO NEEDED? CABLE TV AND INTERNET USAGE GROWS; ADVERTISERS TRY TO INFLUENCE NEWS

For the first time in 15 years of studying public attitudes toward the press, the public image of the press improved, reports Andrew Kohut, dir. of Pew Research Center for the People & the Press. *New York Times* Washington Bureau Chief Jill Abramson explains why. There are **two healthy trends in journalism:**

1. **A shift from opinion to information**, e.g., away from how pundits felt about President Clinton’s behavior regarding Lewinsky to a greater concern for hard news.
2. **Serious foreign reporting may be making a comeback** as seen in the willingness of the media to spend what is necessary to cover the war in Afghanistan. (The 90s saw shrinkage of newsgathering resources abroad, except for the *New York Times*. And there was a shift toward a more entertainment/soft news culture.)

NEW EPIC OF PUBLIC INFORMATION

Mike McCurry, former White House Press Secretary for President Clinton, envisioned

a new epic of public information and outlined several needed elements – which may more broadly apply to all media relations:

- 1) **Replace, or reinforce, the “old media” model** of having one spokesperson standing on a podium in the White House trying to answer all of the questions about what government is doing. *Find better ways to deliver information to the public*, e.g., by using cable tv and the Internet. He says government has to become more creative and innovative in how to tell a story – “by transacting in those things that make information compelling, vivid, [with] anecdotal information provided....”
- 2) The press “needs to **find ways to be more substantive**, to provide richer content, and to be more serious.” Go behind the one big story and discuss “all of those things that contribute to policymaking, that require a sophisticated understanding of complex issues and require a sustained effort to educate and build interest in the elements of those public policies.”
- 3) **Create a new model for modern 21st Century journalism** by not basing competition in the news business on speed, scoop or getting the story first; that’s a model that can’t be sustained. Instead, find a delivery model that “puts a premium on rich, deep content that is right, that is accurate, that is best....”
- 4) Remember that **credibility counts most** and that the **adversarial relationship is critical** – one in which the press is skeptical of the government and circumspect when analyzing public information.

CABLE IS GAINING; NEWSPAPERS BENEFITTED FROM 9/11

Overall, cable is the top source of news for all Americans. The audience for network news has dropped by 50% in the last ten

years. Because of cost cutbacks, they’ve gotten rid of expensive foreign bureaus and switched to cheaper lifestyle and celebrity news, says Tom Rosenstiel, dir. of the Project for Excellence in Journalism. Although defenders of network evening news point out that the three networks still garner between 20 and 30 million people a night, Kohut explains that talking about an audience at a *given point in time* is different from the larger net audience for cable on *any given day*. “The public has come to believe that if you want national news you go to cable,” says Kohut.

The 9/11 attacks also helped newspaper readership. More than 50% of Americans say they are reading more newspapers – and more carefully. That includes the young disproportionately, even though among people under 30, cable is the number one choice and the Internet is as large as any other source of information. Additional insight about the young: they are better educated but less well informed.

IS THE NEWS FOR SALE?

Advertisers are trying to influence the media. This attempt is the most important issue in local tv news. One survey shows that over 50% of local tv stations say their advertisers now attempt to influence coverage. Other influences are also present: as Stephen Hess, senior fellow of government studies at the Brookings Institution, reminds us, NBC is owned by General Electric, CBS by Viacom, and ABC by Disney.

REBUILDING CONSUMER CONFIDENCE – A PUBLIC RELATIONS OPPORTUNITY

Public relations is part of the marketing mix by providing product publicity and other promotional services and by winning consumer trust. During a recession, especially one confounded by 9/11, it can also **help by increasing consumer willingness to buy**. This is important because consumers account for about 2/3rds of the GDP and this recession has been “broad-based, across industries, across regions, across demographic groups and income groups,” says Mark Zandi, chief economist with Economy.com (West Chester, Pa.). In November, The Conference Board’s Consumer Confidence Index fell to 82.2, its lowest level since 1994. Consumer spending intentions (whether to buy a car, a house, or various appliances) are one of the measurements of this index. Negative news of massive layoffs in dot-com companies and in the airline and tourist industries tends to keep these intentions low.

Now, as consumer confidence has rebounded to 93.7 in December and some predict the recession may be lifting this year, it is time for government and business to boost consumer willingness to spend. Some lessons can be learned from the 1957-58 recession (see box).

SOME CURRENT INDUSTRY EFFORTS

The tourist and airline industries, which were hit hardest by 9/11, used the strategy of offering sharp discounts. The theory behind this move is that a good bargain helps consumers conquer fears. The automotive industry also used the “this is the time for a bargain” approach. General Motors and Ford boosted sales in October by promoting 0% financing deals. United and Continental have also directly confronted fear of flying by explicitly talking about the safety record of their airlines.

Brokerage firms and mutual funds used a **reality principle approach**. Last year they honestly told investors that things could get worse and that the reality of losses had to be accepted. They advised investors to redefine their objectives, return to fundamentals, and correct imbalances in their portfolios. In a full-page ad in the *New York Times*, Charles Schwab was shown saying, “Sitting on the sidelines without evaluating your portfolio may be risky.” Schwab also sought to reestablish credibility, saying, “It’s at times like these that Charles Schwab can help.”

Lessons From The 1957-58 Recession

In the U.S.’s first post-war recession, government and business recognized its psychological aspects and launched several advertising and public relations initiatives:

- **Government and business leaders expressed confidence** in the basic soundness of the American economy. President Dwight Eisenhower dispatched a message from his vacation headquarters that “the underlying growth factors in the economy remain vigorous, and every indication is that they will reassert themselves later in the year.”
- The Advertising Council prepared a **weekly round-up of “good news.”**
- Companies like Prudential Insurance Company used television to broadcast **confirming “Confidence in a Growing America.”**
- When signs appeared that the worst of recession was over, **business accelerated the recovery** with programs such as General Electric’s “Operation Upturn,” **announcing the “extra values” brought to customers.**

