

Corporate America's Big Problem: And How to Fix It for Good Christine Arena

## “The corporation is pathologically insane”

Big business has a serious problem to solve: most people don't trust it. They haven't for over a decade, as evidenced by compelling research from firms including Roper, Forrester, Edelman and The Reputation Institute—not to mention the rise of a multi-billion dollar industry comprised of websites, books, magazines and feature films dedicated to depicting the modern corporation as today's most powerful and evil force.

“The corporation is pathologically insane,” argues Joel Bakan, professor of law at British Columbia Law School and director of the award-winning film *The Corporation: The Pathological Pursuit of Profit and Power*. “[Its] legally defined mandate is to pursue relentlessly and without exception its own self-interest, regardless of the harmful consequences it might cause to others.”

Bakan is in good company, as contemporary critics of corporate power have come to include some of the most persuasive and important voices of the 21st Century. Naomi Klein, Paul Krugman, Thomas Freidman, Robert Greenwald, Bill Maher, Michael Moore—these fashionable anarchists sway public sentiment more than a little. Using current events as their guide they help to instill the notion that corporate efforts to repair a broken system are often nothing more than a scam and a sham, and that corporate social responsibility is an oxymoronic concept.

Over the past decade we've witnessed such viewpoints shift from left to center. Whereas during the nineties we saw increased levels of consumer and shareholder activism, today's corporations face an unprecedented populous revolt.

## The resentment sentiment now permeates every level of culture and consumerism.

“It has been a catastrophic year for business, well beyond the evident destruction in shareholder value and need for emergency government funding,” says Richard Edelman, president and CEO of research and communications firm Edelman in a 2009 press release.

Indeed, what a year it has been: Short-selling hedge fund mongers allegedly drive Bear Stearns to the ground, making themselves rich and thousands jobless. As more banks falter, a catastrophic ripple effect destroys an estimated 20 percent of the value of global assets and drives US unemployment to over 8 percent. After accepting hundreds of billions of dollars in bailout money, credit lenders Bank of America, JP Morgan Chase, Citibank, Capital One and others hike interest rates, impose extra fees and freeze lines of credit, making it difficult for many small businesses and consumers to pay down balances or even get by. Insurance giant AIG accepts \$300 billion in bailout money, and then pays executives a reported \$218 million in bonuses. General Motors and Chrysler beg congress for hand-outs as their CEOs fly to Washington in private jets. Bernie Madoff’s \$50 billion Ponzi scheme crumbles, while lead and melamine-laced product exports from China poison babies and lead to massive product recalls.

It’s no wonder why, according to Edelman, global faith in business is at a 10-year low, with 62 percent of people worldwide trusting companies less today than they did a year ago, and 77 percent refusing to buy from companies they distrust. “Our [2009 Trust Barometer] survey confirms that it’s going to be harder to rebuild our economies because no institution has captured the trust that business has lost,” says Edelman.

Unfortunately that’s not where the bad news ends. What’s equally unsettling, particularly to those involved in the social markets, is witnessing this spectacular trust deficit peak during a period of marked corporate investment in philanthropy, sustainability and social responsibility.

## As corporate investments in the “greater good” rise, so does the lack of consumer and investor confidence.

### **Consider this:**

- > IBM’s 2008 “Global CEO Study” revealed that CEOs worldwide plan to increase their investments in corporate social responsibility 25 percent over the next three years.
- > A Sustainability Tracking Study issued by the research group Panel Intelligence showed that 80 percent of corporate sustainability executives plan to maintain or increase levels of sustainability-related spending in 2009; whereas clean technology spending (as a percentage of corporate revenues) is expected to increase 73 percent through 2010.
- > A study from The Conference Board shows that corporate philanthropy efforts targeting the environment, sustainability and climate change will see an increase of 40 percent in 2009.
- > According to a 2009 IEG Sponsorship report, spending on cause marketing will hit \$1.57 billion in 2009, up from \$120 million in 1990.

### **And yet:**

- > A 2005 poll from Roper shows that 72 percent of respondents feel that corporate wrongdoing is “widespread,” up from 66 percent in 2004.
- > A 2005 study conducted by the Customer Care Alliance reports that 100 percent of respondents felt “rage” toward corporations at one point or another.
- > A 2008 Reputation Institute study reveals that 13 of 24 industries have a “weak” reputation based on the perspective of the general public.
- > The 2008 State Street Investor Confidence Index shows that investor confidence dipped from a twelve-month high of 84 in August to a low of 48.2 in December.
- > A 2008 Forrester Study warns that just 16 percent of people who view corporate blogs trust them.
- > Edelman’s 2009 Trust Barometer reports that only 29 percent of people trust information about a company from a CEO, whereas just 13 percent trust corporate or product advertising.

Herein lies Corporate America's current conundrum:  
*there is no way back from here.*

It's not just that trust in corporations is negligible, it's that apparently even the best-intentioned efforts to openly communicate and restore confidence don't stand a chance of turning things around anytime soon. This cleanup is going to take a while. And experts agree, the very best thing that any company can do right now is to more effectively manage one of their most valuable and yet neglected assets: *the corporate reputation.*

Whereas during the nineties we saw increased levels of consumer and shareholder activism, today's corporations face an unprecedented populous revolt.

#### **What's a Reputation Worth**

According to The Reputation Institute, a company's "intangible assets"—made up of factors including reputation, management expertise and innovation—constitute about 65 percent of that company's market value. However, in certain industries including technology, insurance and financial services, that value could be as high as 90 percent.

That's a serious problem for firms like UBS, Northern Rock and Fortis that, according to a 2008 Reputation Institute study, are among the world's "least respected."

Regardless of industry, there are clear and consistent benefits to maintaining a strong corporate reputation, including repeat customers, motivated employees, easier access to capital, greater ease in achieving strategic objectives and, in the event that things go wrong, the benefit of the doubt. That last dimension can be particularly important.

Take the case of JetBlue. Before its February 2007 meltdown, when the airline cancelled more than 1,000 flights during an ice storm and left hundreds of passengers stranded on planes for as long as eleven hours, the company's reputation was textbook perfect. JetBlue was by far the most respected discount commercial air carrier in the United States. As opposed to the airline industry as a whole, JetBlue was seen as humane, innovative and responsive. In 2006, JetBlue's internal survey results indicated that 94 percent of customers ranked their experience with the company as "much better" or "somewhat better" than other airlines, while 99 percent said they "definitely would" fly with the airline again. *Condé Nast Traveler* ranked JetBlue as "Best Domestic Airline" four years in a row. That same year JetBlue was also voted Best Airline Value by *Entrepreneur* magazine, Best Airline Quality by *The Wall Street Journal*, and Best Airline for Economy Class by *Global Traveler*. In response to the accolades, JetBlue's advertising billboards simply read: "We love you, too."

While JetBlue's stellar reputation didn't completely shield the company from media criticism in the wake of the February meltdown, it did foster a swifter recovery. It also prompted the company to handle its crisis response in a way totally uncharacteristic for its industry.

Rather than point blame or pretend that nothing went wrong, JetBlue took a high road that started with the most candid and heartfelt apology from a CEO that many of us had ever witnessed. The content of Dave Neeleman's mea culpa was brilliant:

Dear JetBlue Customers;

We are sorry and embarrassed. But most of all, we are deeply sorry. Last week was the worst operational week in JetBlue's seven year history...Words cannot express how truly sorry we are for the anxiety, frustration and inconvenience that you, your family, friends and colleagues experienced. This is especially saddening because JetBlue was founded on the promise of bringing humanity back to air travel, and making the experience of flying happier and easier for everyone who chooses to fly with us. We know we failed to deliver on this promise last week.

We are committed to you, our valued customers, and are taking immediate corrective steps to regain your confidence in us. We have begun putting a comprehensive plan in place to provide better and more timely information to you, more tools and resources for our crewmembers and improved procedures for handling operational difficulties. Most importantly, we have published the JetBlue Airways Customer Bill of Rights—our official commitment to you of how we will handle operational interruptions going forward—including details of compensation. We invite you to learn more at [jetblue.com/promise](http://jetblue.com/promise).

You deserved better - a lot better - from us last week and we let you down. Nothing is more important than regaining your trust and all of us here hope you will give us the opportunity to once again welcome you onboard and provide you the positive JetBlue experience you have come to expect from us.

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I for one bought every word of this apology. And having been one of the stranded passengers at JFK that Valentine's Day, rather than switch to another carrier I gladly flew JetBlue home. I did it because I felt that the company had done more than just count on its reputation to get it through a crisis. It had lived up to it. And that's what the world's most respected companies do.

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### **The Common Threads**

The most respected companies in the world share various common traits: strong leadership, an inspired corporate culture, sound financial performance, steady innovation, solid corporate governance, high quality products and so forth. But perhaps one of the more striking similarities is *purpose*.

Authentic High-Purpose Companies—those companies driven by a social or environmental cause to the extent where their financial performance depends on it—are among the most respected companies in the world. Conversely, Low-Purpose Companies—those companies whose social and environmental postures run contrary to shareholder interests—tend to be the some of world's least respected.



<b>Company:</b>	<b>Purpose:</b>	<b>Reputation:</b>
JetBlue Airways	“Bringing humanity back to air travel”	“The Highest in Customer Satisfaction.” <i>JD Power &amp; Associates</i>
General Electric	“Providing imaginative answers to the mounting challenges to our ecosystem.”	“America’s Most Admired Company.” <i>Fortune Magazine</i>
Toyota	“Making sustainable mobility a reality.”	“The World’s Most Respected Company.” <i>The Reputation Institute</i>
Patagonia	“Inspiring solutions to the environmental crisis.”	“The Coolest Company on the Planet.” <i>Fortune Magazine</i>

*versus*

<b>Company:</b>	<b>Rhetoric:</b>	<b>Reputation:</b>
Halliburton	“Every action is guided by our vision to be welcomed as a good corporate neighbor.”	“The company with the worst reputation.” <i>The Wall Street Journal</i>
Monsanto	“Integrity is the foundation of everything we do.”	“Global corporate terrorists.” <i>The Organic Consumers Association</i>
Allstate	“You’re in good hands.”	“Among the top three worst insurers.” <i>Fight Bad Faith Insurance Companies</i>
ExxonMobil	“Taking on the world’s toughest energy challenges.”	“The company most in need of a corporate makeover.” <i>Harris Interactive</i>

## The direct correlation between purpose and reputation is no coincidence.

Whereas not every respected company is a High-Purpose Company, every High-Purpose Company is a respected company. The strategic pursuit of purpose is therefore an effective tool that companies can use to improve their impact on stakeholders, their perceived character, and, ultimately, their worth.

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High-Purpose Companies are a unique breed. While they are not always perfect companies with flawless track records, they are authentic in the sense that their *investments* match their words. You can see this plainly reflected in both their product portfolios and their growth strategies. (For further examples and comprehensive analysis, please refer to chapters 6-7 in *The High-Purpose Company*). Since High-Purpose Companies produce more social, environmental and financial value than any other type of company—and since they are widely known and revered for this—they tend to be more resilient.

On the other hand, Low-Purpose Companies tend to have more volatile reputations. This is chiefly because no amount of crisis management or public relations can account for a lack of authenticity.

Whereas many Low-Purpose Companies claim to stand for a purpose that serves the common good, in reality they have the financial incentive to undermine their reputed cause—and often do.

For instance, if ExxonMobil were to truly “take on the world’s toughest energy challenges,” then the logic follows that the company would start to view energy issues more holistically, better prepare for oncoming policies aimed at curbing carbon dioxide emissions, and also invest more broadly in an array of renewable solutions. But that is not the case. ExxonMobil’s current growth strategy is primarily to drive up oil supply, demand and control. This strategy, though incredibly profitable in the near term, has caused some of the company’s most high-profile shareholders to publicly raise concern about its future.

A 2008 shareholder revolt led by the Rockefeller family and other key investors criticized the firm’s refusal to follow its brand promise—in addition to rival oil companies like BP—in seriously investing in environmental technologies such as wind and solar power. If rebellion like this continues to gather pace and proves correct, Exxon could suffer an embarrassing defeat. In any event the company demonstrates a valuable lesson: The discrepancy between what a company says and what it does in reality holds a real and measurable bearing on its reputational quotient. The following rule generally applies: the wider the discrepancy, the worse the reputation.

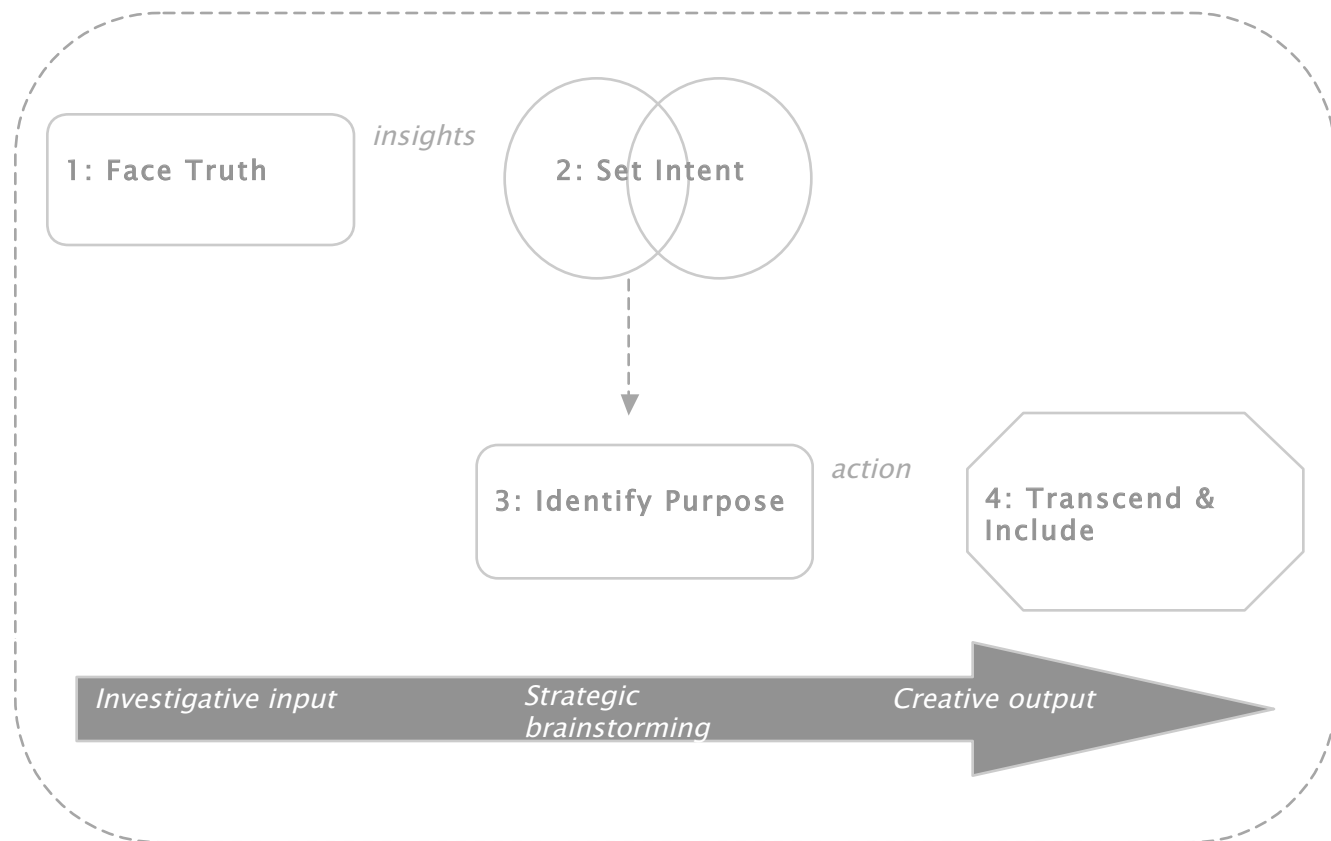
### **A Corporate Recovery Plan**

No matter what a company’s current reputation, there are constructive steps it can take to move in the right direction. In fact, the steps outlined below have *proven effectiveness*.

In conducting research on High-Purpose Companies, one of my research team’s core objectives was to determine what these companies had in common. We asked: How were they different from average companies? How did they go about achieving and maintaining such strong results? What beliefs, goals and methods did they count on? And furthermore, could their strategic aptitude serve as a roadmap for other companies interested in climbing the same ladder of effectiveness?

After five years and thousands of hours of analysis, I can say with total confidence that the answer to that last question is “definitely, yes.” There are clear levels in the High-Purpose progression. Exactly *how* a company moves through each of the steps varies from company to company, but the successful completion of all phases can lead to organizational excellence and a stronger and more durable corporate reputation:

### High-Purpose ID™



### **Step 1: Face the Truth**

In order to successfully turn things around, a business should start by fully comprehending what it's up against. Though this might sound quite obvious, it is remarkable just how many companies gloss over this critical and potentially cathartic process. Facing the truth does not only include reaching out to a company's "target audience" to test brand perceptions. On the contrary, old school market research methods no longer hold relevance in a digital society where corporate reputations are constantly influenced by multiple dynamic forces. To truly understand where a company stands it must reach out to the whole *web of accountability*—including consumers, employees, investors, NGOs, activists, journalists, bloggers, social networks, politicians, attorneys and watchdog groups. Sound overwhelming? It doesn't have to be. Do what we did: start with a thorough Google search, follow up with key sources (making sure that all stakeholder groups are equally covered), and then piece the highlights together to form the company's true story.

### **Step 2: Set Intent**

A High-Purpose Company's primary goal is to create the utmost social, environmental and financial value, and to do that it must first map out its intentions. What results does your company wish to create in the world? To effectively answer this question a company should do two things: first, determine what issues uncovered during the process above demand attention. Next, establish a compelling business case that substantiates the willingness to move forward. Ask: What are the company's greatest strengths? And, what pressing social and environmental needs and problems are most relevant to stakeholders? The convergence of these two issues forms the basis of a sustainable business strategy. For instance, GE's greatest strengths include its unparalleled imagination, its proprietary technologies and its vast reach; whereas the problems that most impact its stakeholders include global warming, water scarcity and the continued reliance on foreign oil. By finding the common ground between these issues, Ecomagination—which provides imaginative answers to the mounting challenges to our ecosystem—was born.

### **Step 3: Identify Purpose**


A purpose is more than just a tagline. For companies that pass my litmus test, purpose represents a corporate-wide commitment, a cycle of self-improvement, a marketing initiative and a growth strategy—in short, *an ultimate value proposition*. Companies interested in deciphering their own higher purpose should ask themselves questions like: What makes the company invaluable to people and worthy of succeeding? Why should people trust the company? What does the company fight for? Where is the company moving? How will the company challenge convention? And, beyond making money, what in the world is the company here to do? Approach this phase not as a branding exercise, but as a collaborative effort that includes a core team of people from different silos in the organization. My research shows that the greatest purpose-driven “creative leaps” can come from anywhere inside a company—from sales, marketing, research, operations, technology or senior management. Therefore, making this strategic process a cross-functional group effort will ensure buy-in, inspire innovation and give everyone a vested interest in the outcome.

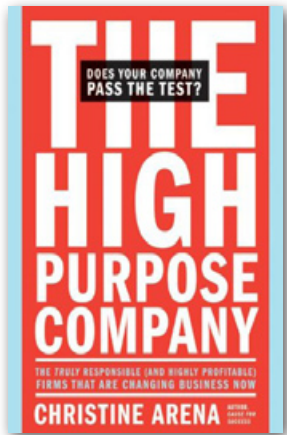
### **Step 4: Transcend & Include**

The core objective here is to transform vision into reality. Keeping shareholder interests squarely in mind and without scrapping existing processes all at once, High-Purpose Companies engineer novel and profitable solutions that meet deep social and environmental needs. Your company can do this, too. Using the same (or similar) cross-functional “purpose” team that participated in the step above, brainstorm ways in which the company can best go about evocatively expressing and living up to its higher purpose. What does the new roadmap look like? Give this process some time. Allow each silo leader to work with her inter-departmental group to devise a list of possible ideas. Then regroup the core purpose team, evaluate the ideas proposed by each silo, and select the winning ideas. Implant the winning ideas into a specific timeline, and identify clear objectives for each initiative. Most important, identify performance metrics that will be used to measure and monitor success on an ongoing basis. That way the company will be able to optimize its strategy and more clearly communicate the social, environmental and financial value it produces to stakeholders—thereby helping to strengthen its reputation.

If ever there was a time to get serious about proactively managing trust and reputation issues, it's now. So why not commit company resources to a process such as the one described above? While there are dozens of consulting organizations that can assist, your company's best bet might be to develop an in-house capacity—not to spinning the truth through public relations, but to facing and effectively managing it through collaborative efforts that engage and inspire.

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Whatever you do, don't leave things to chance. Remember that no ad campaign, no slogan, no celebrity and no promise can compensate for a lack of trust and the feeling that one is being manipulated, fooled or lied to. That's why authenticity and purpose play such a vital role in establishing corporate reputation, and why it's worth taking the upper hand. 



## BUY THE BOOK

Get more details or buy a copy of Christine Arena's [High-Purpose Company](#).

## ABOUT THE AUTHOR

Christine Arena is a corporate strategist and the award-winning author of two books, *Cause for Success* and *The High-Purpose Company*, from which this manifesto is adopted. Through her books and ongoing research, Christine's primary objective is to help people more easily distinguish between true and false corporate social responsibility (CSR), or winning versus losing strategic approaches. She is a frequent speaker on the subject of CSR effectiveness to corporate and academic audiences worldwide. Additionally, Christine serves as a strategic partner to reputation think tank Emotive Brand and sustainability consulting firm Natural Logic, and also sits on the advisory board of non-profit Urban Re:Vision.

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