The Tisdall Lecture in Communications

The Canadian Public Relations Society Conference
Calgary, Alberta
June 16, 2005

Substance Sells:
Aligning Corporate Reputation and Corporate Responsibility

Bennett Freeman
Senior Counselor, Corporate Responsibility,
Burson-Marsteller

Former U.S. Deputy Assistant Secretary of State,
Democracy, Human Rights and Labor

I want to thank Charles Tisdall, Barbara Sheffield and the Canadian Public Relations Society for inviting me to give this lecture. I would also like to thank Luc Beauregard and his National Public Relations colleagues in Calgary, Montreal and Toronto for the chance to work so closely together over the last two years.

It is a particular challenge to address such a distinguished group of public relations professionals. I hope to bring you a multi-dimensional perspective based not only on my work with multinational corporations over the last two decades, but also on my State Department experience and my current relationships with major international NGOs. My perspective on the link between corporate reputation and corporate responsibility has been informed most significantly by my work over the last two years with Burson-Marsteller—the gold standard global public relations and public affairs firm. So I come to our subject today both as an insider and an outsider, and hope to be both reflective and provocative.

My argument is that in this new era of accountability and sustainability, corporate reputation and corporate responsibility are inseparable. Multinational corporations in particular face growing pressures and expectations from diverse and demanding stakeholders around the world—pressures that they cannot escape and expectations that they must address. From human rights and labor practices to the environment and sustainable development, corporate policy and conduct is on the public agenda now more than ever before—at a time when trust in business remains low after the battering it has taken on both sides of the Atlantic over the last several years.

How agencies counsel their clients—and what companies communicate to their stakeholders—influences trust in brands and shapes the world for better or worse. Public relations and public affairs professionals have a fine line to walk in aligning private and public interests. They can walk that line and align those interests if they recognize that real commitment and performance matter most—and that only substance sells.

I am going to make this argument in three parts: first by explaining why and how corporate responsibility and corporate reputation are converging; second, by suggesting how the corporate responsibility agenda is moving toward an even more challenging one focused on accountability and sustainability linked to corporate strategy; and finally, by putting forth a series of brief propositions as to how public relations and public affairs professionals can align corporate reputation with corporate responsibility in ways that contribute to business success and a better world at the same time.

The Growing Convergence of Corporate Responsibility and Corporate Reputation

Let me begin with the longstanding but intensifying convergence of corporate responsibility and corporate reputation. Their connection dates back several decades—perhaps crystallized most powerfully by the way Johnson & Johnson created goodwill through its handling of the Tylenol crisis or Exxon failed to do with its response to the Exxon Valdez disaster. Even earlier, student and citizen activists emerged in the Seventies in Europe and North America to challenge multinationals to disinvest from apartheid South Africa and to pressure Nestle to alter its infant formula marketing practices—both ideologically and emotionally charged issues which sent reverberations across the landscape of corporate reputation for years.

But beginning a decade ago, the contours of that landscape shifted. Corporate social responsibility began to move from the margins to the mainstream, from its established niches in the environmental and socially responsible investment movements to the center of public and media attention and on to the agendas of multinational corporations. By the mid-Nineties, "CSR" became shorthand for several concurrent developments: for those new pressures and expectations facing multinationals from a "Star Wars bar" full of unconventional actors on uncomfortable issues; for a range of new codes and initiatives addressing those issues; and for an emerging cottage industry of conferences and consultants seeking the attention of companies. The phenomenon became trans-Atlantic and indeed global as European and North American multinationals came under scrutiny and criticism in nearly every region of the world.

There are at least several major reasons for this growing convergence between corporate reputation and social responsibility:

First, the power and impact of NGOs cannot be overstated, emerging from almost nowhere to challenge multinational corporations. Ten years ago this year, Shell was rocked by the execution of Ken Saro-Wiwa and the Ogoni Eight by the Nigerian military dictator Sani Abacha; and by the Brent Spar oil platform debacle in the North Sea. Human rights and environmental activists mobilized, public opinion was aroused and Shell put on the defensive. Nike, Gap and other footwear and apparel companies were soon to follow as they stood accused by NGOs and student activists of using "sweatshop" factories. Company after company in sector after sector has since been confronted with internet-connected and media-savvy NGO campaigns raising tough issues and posing severe challenges to their reputations and even to their fundamental social license to operate—all at a time when the global reach of these multinationals has been widening and their economic power deepening. These campaigns were given a further political context and narrative—and dimension of media interest—by the pre-9/11 anti-globalization movement that sought to put both multinational corporations and international governance institutions on trial.

Business has gained little love but much respect for the ability of NGOs to define and drive agendas that have forced individual companies and entire industries, as well as governments and international institutions, to react. The extent to which public perceptions and company reputations have been affected are reflected in studies that continue to rate trans-Atlantic trust in the brands of Amnesty International and Oxfam ahead of that in any multinational corporate brand in the world. Moreover, according to John Elkington of Sustainability, the international NGO sector could become "among the most influential institutions of the 21st century" as they are "moving beyond a culture of criticism, to one of engagement with business and other partners in search of solutions." I believe that NGOs are already among those "most influential institutions" and that business should engage them—but on terms defined carefully by companies and NGOs consistent with their own interests and appropriate roles.

Second, a growing proportion of stakeholders around the world think that companies share responsibility with governments across a range of social and environmental issues. Not just advocacy NGOs but rising numbers of average citizens and opinion leaders alike believe that oil, gas and mining companies have a responsibility to respect human rights wherever they operate and to limit their carbon emissions and other environmental impacts; that footwear and apparel companies have a responsibility to eliminate sweatshop labor practices in their suppliers' factories; that food and beverage companies have a responsibility not only to uphold stringent guidelines on product safety and chemical use but also to curb child labor in their agricultural supply chains in the developing world; that pharmaceutical companies have a responsibility to ensure access to HIV/AIDs medicines in sub-Saharan Africa and elsewhere by cutting prices drastically and relaxing patent protections so that cheaper generics can be marketed. Virtually every industry is being challenged to address one or more of the most important and intractable issues on the global policy agenda, in ways that are posing both problems and opportunities for nearly every major multinational corporation in the world.

Third, the wave of corporate governance scandals over the last several years on both sides of the Atlantic has further diminished trust in business and put corporate accountability front and center as never before. Corporate governance scandals have even more effectively focused public attention on corporate conduct than have social and environmental issues—even those as compelling as sweatshop labor, human rights abuses, climate change and food safety. While "CSR" is seen by some in North America as an elite policy agenda, the corporate governance scandals have touched the public as basic fairness issues with tangible consequences for the tens of thousands of employees and investors who have lost their jobs and savings. The scandals have also imposed, sometimes brutally, the ultimate sanction on companies—the ruin of their reputation, brand and even business altogether as with Enron, Andersen, WorldCom and others. Although the issues differ on the corporate social responsibility and governance fronts, the two key operating principles for protecting a company's reputation are the same: transparency and accountability.

Fourth, corporate responsibility is gaining traction as the business case breaks new ground on two fronts:

- One is the still more accepted defensive case for managing reputation risk, safeguarding social license to operate and managing stakeholder relations;

- The other is the emerging affirmative case for gaining customer and employee loyalty, building markets for innovative products and services, creating competitive advantage, and attracting socially responsible investors among individuals and public institutions controlling billions of dollars of assets alike.

Fifth and finally, corporate reputation and responsibility have been converging because of the momentum that the corporate responsibility agenda has achieved. Whether the full business case for corporate responsibility is accepted or not, companies are faced with implacable forces and trends—and tough issues and choices:

- The still cluttered landscape of competing standards and initiatives, even as the UN Global Compact and the Global Reporting Initiative have emerged, respectively, as the overarching frameworks among policy and reporting models;

- The debate over voluntary versus mandatory standards, still ideologically polarized on issues such as the UN Draft Norms on business and human rights;

- The continuing exposure to legal liability and litigation in U.S. courts that has so alarmed extractive sector companies in particular and compelled the Bush Administration to intervene on their behalf in particular cases;

- The push for greater transparency, disclosure and materiality in reporting, with expectations continuing to grow as companies such as Gap and Nike set the bar higher with their recent reports;

- The sharpening focus on supply chains as the “acid test” for corporate responsibility as brand reputations become indivisible from the performance of far-flung suppliers;

- The dilemma of confronting or engaging NGOs critics, and if so on what terms and with what objectives and potential mutual benefits on the table;

- The discomfort of many in the business and NGO communities with blurred corporate roles that stretch the legitimacy, if not the capacity, of companies to solve problems and provide services that should be the primary responsibility of accountable governments.

Yet every major multinational, whether publicly supportive or privately skeptical of the contemporary corporate responsibility agenda, acknowledges that it nonetheless faces every one of these trends and issues—and that each poses a tangible risk or opportunity for the company’s brand and reputation.

That is why the *Financial Times* has written that regardless of cost pressures, “many companies are concluding that they cannot afford *not* to invest in being seen as responsible.”   Moreover, that is why:

- A major study undertaken in 2003 by the Center for Corporate Citizenship and the U.S. Chamber of Commerce Center for Corporate Citizenship found that 82% of the 515 business executives it surveyed from companies of various sizes and from a broad range of industries said that good citizenship helped the bottom line and 59% believe that responsible practices improved their companies’ image and reputation;

- Fully 92% of the 1,033 Americans surveyed last year by Cone, the Boston-based social marketing firm, say that business should be more “socially responsible,” 77% believe that “companies have a responsibility to help support social problems,” and

90% said that they would consider no longer purchasing services or goods from a company with a negative corporate citizenship track record;

- A new study released by KPMG just this week shows that more than half of the largest companies in the world—52% of the top 250 FORTUNE 500 companies—now publish separate CSR or sustainability reports, up from 45% three years ago and now embracing companies in more sectors and based in more countries.

Even *The Economist*, in its widely read and debated "skeptical" survey on Corporate Social Responsibility in January of this year, still grudgingly conceded that "the movement for corporate social responsibility has won the battle of ideas." It forecasts that CSR will remain front and center on corporate agendas, above all, because of its impact on companies' most valuable asset of all—their reputations.

Beyond CSR—Toward Accountability and Sustainability

While this apparent victory of the CSR movement—or at least its growing mainstream acceptance—seems irreversible, the agenda is evolving and sharpening in ways that are already defining and redefining corporate reputations for important stakeholders. The multinationals that have demonstrated a commitment to corporate responsibility since the movement accelerated in the mid-Nineties are now moving beyond CSR to embrace two sets of intertwined challenges that will in turn help set the terms on which corporate reputations are judged for the next generation and beyond:

- The first challenge is accountability, the extent to which companies are transparent and accountable not only to their shareholders but also to their diverse and demanding global stakeholders;

- The second challenge is sustainability, the extent to which companies contribute sustainable solutions to the toughest challenges—from the environment and energy to poverty and disease—which will shape the 21st century world.

In my view, the terms "corporate social responsibility" and its shorthand "CSR" or even "CR" obscure more than they illuminate the new expectations that are emerging for multinational corporations. They do so by implying that their economic functions are not positive contributions in themselves, and thereby play into the hands of critics who dismiss the entire agenda as anti-business. I believe that accountability and sustainability are concrete and measurable concepts—both for business and society.

For business, accountability and sustainability are concepts that connect to the core of management discipline and strategic vision; they can safeguard brand reputation and shareholder value and become the basis of new business opportunities, markets and customers. For society, accountability and sustainability anchor business to democratic institutions and the rule of law; they can also mobilize and measure business solutions to social, economic, environmental and health problems from a local to a global scale. For both business and society alike, the concepts of accountability and sustainability can be framed in ways that are consistent with the legitimacy and capacity of companies to act in their own interest and the world's at the same time.

Yet business is weary of being the default key that is pressed in search of a solution to virtually every problem in the world. Society should be wary of expecting unelected—even if increasingly accountable—companies to take on roles and responsibilities better left to democratically elected governments or mandated to companies through legislation or regulation. Even as they define and assume appropriate roles and responsibilities alongside governments and international institutions, NGOs and local communities, companies are testing and finding the limits as well as the possibilities of corporate responsibility. Indeed, they should acknowledge dilemmas beyond the legitimacy or capacity of a particular company or even industry to resolve on its own—provided that they are doing their part seriously and credibly.

No one company or industry can curb climate change, end sweatshop labor, eliminate poverty, eradicate HIV/AIDS, or narrow the digital divide on a global basis. But every company, especially large multinationals, can lead by example in its industry and contribute solutions to these problems in the communities and countries where they operate. Leading companies make innovative commitments and deliver measurable progress, and find ways to communicate that progress even if it is imperfect and incomplete—as it almost always will be.

Some see 2005 as the year of backlash against the CSR movement and agenda, with *The Economist* survey the leading edge of the assault. I see this year shaping up differently in light of the impact and contribution that two unexpected entrants into the arena, just in the last month, are likely to make for years to come:

- GE released its first comprehensive Citizenship report and launched a parallel "Ecoimagination" initiative, together demonstrating the dual salience of the emerging accountability and sustainability agendas;

- McKinsey responded to the *Economist* Survey in that same magazine proposing an alternative both to the Friedmanite view that the "business of business is business" that overlooks the importance of social issues to companies, and to the "rather fuzzy" CSR view that understates the social value contributed by successful companies.

Most significantly, both GE's commitments and McKinsey's commentary point in the same direction: toward linking the corporate responsibility agenda, and the essential social and environmental challenges it raises, directly to corporate strategy. Mitigating risk and managing stakeholder relations have gained acceptance as legitimate if defensive drivers of corporate responsibility, but are still considered by some to be peripheral to an affirmative business case resting on large-scale and long-term competitive advantage. Such a case can be advanced decisively by the willingness of significant multinationals to develop and deliver sustainability solutions in the form of profitable and tangible products and services that meet the world's most pressing needs. Interestingly, these two new entrants—one the largest company in the world measured by market capitalization, the other the most respected management consultancy—may have pointed to the true "Holy Grail" that has thus far eluded the CSR movement.

Let us consider GE more closely. The company, as spectacularly successful as it was during the two decade-long Jack Welch era, nonetheless fell behind the curve on corporate responsibility. But Jeff Immelt has changed course since becoming CEO—first on corporate governance issues and now on the sustainability agenda. In the wake of the scandals rocking Corporate America in 2001-02, Immelt moved to increase the company's financial transparency and to strengthen the role of independent directors. He also laid the groundwork for a broader approach by creating a new Vice President for

Corporate Citizenship, strengthening an already robust environmental remediation and compliance system, sharpening its focus on supplier adherence to basic environmental and labor standards, and launching an innovative health and education initiative involving several of its businesses in Ghana. Immelt's rationale is that "It's up to us to use our platform to be a good citizen," and there may be no more significant company platform in the world from which to demonstrate corporate citizenship on a global scale.

The scale of GE's new commitment is bold indeed: to invest $1.5 billion a year by 2010 in clean technology R&D and to double by that year revenues from products and services that provide "significant and measurable environmental performance advantages to customers," to be followed by even more aggressive revenue targets in this area. GE also pledged greater transparency in reporting on its environmental targets, including its own emissions reductions. GE's announcement generated massive and favorable media coverage; evoked positive reactions from environmental NGO leaders, even longtime critics of the company; and created yet another leadership platform for its new CEO and brand marketing platform for the entire company.

No doubt GE has also raised very high expectations for itself, but its track record in other areas should give confidence that it will deliver on these commitments. In my view, GE has the right attitude. Its Vice President for Corporate Citizenship, Bob Corcoran, recently acknowledged to the *Financial Times* that GE is a newcomer to non-financial disclosure and will seek feedback on its new CSR report from stakeholders who will be asked to "Judge us on our substance." No doubt GE will be so judged, with its massive size and cross-sectoral reach, together with its iconic status and bellwether influence. When GE crosses the Rubicon and asks to be judged by its commitment to accountability and sustainability, other leading companies will have to follow if they have not already taken the plunge. Whether they sink or swim in the swift currents of these new mainstream expectations will have important implications for their reputations—and for all those working in the corporate responsibility and public relations arenas alike.

Implications for Corporate Communications

Let me turn explicitly to the implications for corporate communications that should be apparent as the twin agenda of accountability and sustainability gains momentum and traction.

Most corporate managements and communications professionals understand the basics of the corporate responsibility agenda and its potential impact, for better or worse, on the reputations of their companies and clients. But not all are comfortable with integrating these issues into their communications strategies and addressing the demands of stakeholders to demonstrate accountability and their commitment to sustainability. They are frankly challenged by the demands of credible, transparent reporting and by the dynamics of stakeholder engagement—and by the perception that they can never do enough to satisfy NGOs in particular as their companies must remain focused on delivering solid business results.

The most effective corporate responsibility and sustainability communications and reporting offer stakeholders a series of snapshots of a company's commitment and performance as works in progress. This kind of approach is consistent with the evolving spirit of corporate responsibility as a continuing process, one that values a willingness to tackle tough long-term challenges over satisfaction with positive short-term results.

In late 2003, Burson-Marsteller released the study *NGO Perspectives on Corporate Reputation and Responsibility*, in which we identified key elements of credible reporting and communications based on a survey of nearly fifty advocacy and community-based groups based in the U.S. The results were revealing then as to the key factors from the NGOs' perspective that contribute to the link between corporate reputation and corporate responsibility. The top four factors identified by the NGOs were reporting on non-compliance, poor performance or significant challenges; comprehensive performance metrics; third-party verification by independent groups or assurance firms; and standardization of reporting across a company's businesses.

The key finding—that NGOs attach the greatest significance to a company's willingness to acknowledge non-compliance, poor performance or significant problems—presents a tough challenge to the cultures of Corporate America and Corporate Canada that have long placed a premium on the ability to demonstrate concrete results and clear "wins." If NGOs believe that "honesty with stakeholders" is truly the top driver of corporate reputation (as we found), then our data delivered a clear message to companies: be candid about your problems and non-traditional stakeholders will be more willing to recognize your progress.

The essential point is that the sophisticated, contemporary accountability and sustainability agendas attach value and credibility to identifying dilemmas as well as solutions, to raising tough questions as well as to providing clear answers. To be credible, corporate communications—whether CSR reports, stakeholder dialogue or media relations—must become comfortable with imperfection and uncertainty, even if doing so runs counter to the absolute confidence that companies try to project to financial analysts and the media.

Two major multinational brands have got it right in the last year, and as a result changed the rules of the game for corporate responsibility reporting. Gap's first Social Responsibility report, released last May, disclosed issue-by-issue patterns of violations of its code by suppliers in over fifty countries—and by doing so demonstrated the vitality and credibility of its global compliance process. Nike took this approach a step further in its report released in April by disclosing the names and addresses of over 700 approved factories supplying its brand products around the world. Between them, these two companies have set a new standard for transparency that will likely become the norm over time across the footwear and apparel industries and beyond.

Based on this analysis and my experience, I believe that the public relations and corporate responsibility worlds should share an interest in aligning corporate reputation with a post-CSR agenda that is increasingly focused on accountability and sustainability—and increasingly integrated with corporate strategy. Let me offer a list of ten maxims to help PR professionals, in both the corporate and agency worlds, align the reputations of their companies and clients with their social responsibility commitments and stakeholder expectations in mutually-reinforcing ways:

First and foremost, *substance sells and "messaging" is secondary to the substance of the message*. Corporate responsibility is fundamentally about making and delivering on substantive policy and business commitments in ways that are transparent and accountable to stakeholders—and stakeholders are satisfied only by performance that is communicated substantively and credibly. Aligning actions and words is essential to reconciling “PR” and “CSR” in a positive way, both in the interest of safeguarding corporate reputations and advancing corporate responsibility goals.

Second*, sometimes a company needs to recognize that it does not have a PR problem—it just has a problem*. In my experience, the problem is sometimes ill-diagnosed, particularly in the face of an NGO campaign or CSR-related crisis. It takes both wit and guts for public relations professionals—whether in-house or agency-based—to offer strategic solutions to substantive problems instead of tactical solutions to what are perceived to be communications problems. Communications are of course an integral dimension of effective strategies, but one cannot substitute for another.

Third, *the perfect is the enemy of the good in this new world.* Everyone believes that “nothing succeeds like success”—except in the CSR world which has turned the definition of success inside-out. Corporate responsibility is not about perfect performance and final results; it is about serious commitment and continuous improvement. The companies that have done most in recent years to enhance their reputations are those that talk not just about progress and success, but about problems and mistakes. Credibility is the most precious asset that a company can build and safeguard in the corporate responsibility arena—just as it is in the other key dimensions of corporate reputation and investor confidence. Getting labor and human rights, environmental and sustainability issues right might not seem like rocket science to everyone—but they are in many ways the terrestrial equivalent.

Fourth, *a little humility goes a long way toward establishing credibility.* Companies that either duck the tough issues or hype their claims will not help themselves at a time when trust in business remains in short supply. Putting a modest face on the story may be putting the best face forward—even if such an attitude runs counter to the natural and understandable instinct of many corporate communications professionals to promote good news. A company that follows the lead of Gap and Nike by disclosing violations in its supplier factories and emphasizing the challenges it faces in eliminating their causes will be credible—and commended for its forthrightness.

Fifth, *recognize that NGO relations are becoming almost as important as investor relations, especially from a corporate reputation and communications perspective.* View mainstream NGOs as legitimate stakeholders to engage through substantive policy dialogue—not as enemy combatants to fend off through counter-insurgency operations. Recognize that engaging with NGOs does not necessarily mean agreeing with them; it means trying to find common ground if possible; if not, it means finding ways to manage and communicate legitimate differences.

Sixth, *remember that brands are becoming indivisible from their supply chains in many industries, and that serious mistakes or abuses on the part of suppliers anywhere can risk a company’s reputation everywhere.* The footwear and apparel industries have learned this lesson the hard way; now other sectors, from food and beverages to jewellery, gold and diamonds, are catching up. Communicate corporate responsibility commitments and expectations clearly across the supply chain in order to maintain public and consumer confidence.

Seventh, *do your job or someone else might to the company’s detriment*. Do not let the legal, compliance or human resource functions take the place of public relations and public affairs professionals on issues where corporate responsibility converges with corporate reputation—especially not in a crisis. Be at the table in the executive suite when decisions are made on accountability or sustainability issues that will be judged carefully and perhaps critically by stakeholders. But being at the table means not just fending off criticism tactically in an immediate context, but focusing strategically on the company's core interests and thinking creatively about new commitments and initiatives.

Eighth, *do not turn over CSR and sustainability communications, including non-financial reporting, to accountants or former accountants.* Accountability is not accounting; it is aligning categories, numbers and trends with the values, policies and practices that the data should reflect. Non-financial reporting—now required by the new Operating and Financial Review for publicly-traded companies in the UK—should be natural turf for public relations and public affairs professionals. Public relations and public affairs firms need not supplant but should complement the assurance firms that have moved into sustainability reporting—and can do so by communicating to their clients the new rules of the game that determine the credibility of that reporting.

Ninth, *do not hide or bury the CEO.* John Browne of BP and now Jeff Immelt of GE are the exceptions; they should be the rule at a time when there is far too little leadership on public issues on the part of business leaders. Corporate responsibility—above all accountability and sustainability issues with a significant impact on reputation as well as performance—are too important to be delegated entirely away from the executive suite and the board room. These are CEO leadership challenges, not just corporate staff functions, and leaders must lead on issues that can no longer be insulated from corporate reputation and business performance.

Tenth*, recognize the primary importance of communicating corporate responsibility to employees—the most fundamental stakeholders of all.* So much focus has been rightly placed on communicating the substance of accountability and sustainability commitments to non-traditional stakeholder such as NGOs. But it is no less important to communicate core values and commitments to the employees whose understanding and involvement is essential to bringing them to life. The debate over the "ROI of CSR" will carry on indefinitely. But the case has been made conclusively that companies can attract, retain, inspire and motivate employees by standing for something even larger than the enterprise itself.

<u>Our Task: Monumental yet Manageable</u>

Let me conclude by proposing that our task as public relations and public affairs professional is monumental yet manageable. It is a monumental challenge to work with multinational corporations to diminish risk and safeguard reputation, to create strategic opportunity and find competitive advantage, all against the backdrop of the challenges that globalization imposes and the imperatives of accountability and sustainability that it demands. It is a manageable challenge to help our own companies and clients to decide and communicate who they are and what they do to improve the world in concrete ways. If we can help them do that, then over time they can maintain credibility and build trust with the many stakeholders upon whose understanding—if not full support—their ability to operate and profit depends.

That is our task: shaping and communicating the substance of how our companies and industries are creating economic value while building a more sustainable and just world at the same time. Thank you very much.