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The Dilemma of Unrealistic Expectations

Their eight digit compensation packages notwithstanding, it can't be much fun being chief executive officer (CEO) of a FORTUNE 500 corporation nowadays. It's been that way for a long time – since the early 80s – but no one seems to want to do anything about it. Not the Congress, nobody on Wall Street, not even the CEOs themselves.

The problem is easy to explain. Wall Street's financial analysts, hedge funds and other managers of large pension funds now expect companies they have invested in to report ever increasing earnings – quarter-after-quarter, year-after-year. There is no tolerance for a shortfall – neither boom bursting business cycles, bad weather, nor a depressed economy. Moreover, they expect non-stop sales growth at comparable or more elevated rates than in previous quarters. Missing the "Street's" consensus estimate just a couple pennies can result in a five per cent drop in stock value; the same when sales growth fails to keep pace with the past.

This bugaboo has made "making the quarterly numbers" a publicly-traded company's priority objective. More important than giving the customer full value for his money. Preventing the purchaser of goods and services from using the neutral judicial system to satisfy claims against faulty products or services --- even adjusting wages to reflect increased productivity. All adopted to protect or bolster the quarterly earnings stream.

Many business and financial media "know-it-all's" blame the CEO and his inner circle of greedy direct reports. "Their objective is to get obscenely rich and they want it now" is all too frequently the accusation of the unknowing protesters, in many cases the company's own employees and small stockholders. In other instances, those whose sole objective in life is to destroy the capitalist market economy that has been envied the world over.

One cannot deny that CEOs of even our best managed corporations have made some bad calls in recent years. They will readily admit that reducing research and development costs puts the company, the economy and even the nation in jeopardy. The same applies to infrastructure, both private and public. Having cut costs to the bone in the operations they control, a growing number of U.S.-based corporations are moving headquarters overseas to take advantage of lower tax rates.

How well we as a nation are prepared for the future is of transcendent importance because it is so basic to both the premises and promises on which our nation was founded and the quality of life it provided for two centuries.

At the time freedom came to America, the corporation, as a business entity, hardly existed. Those that did exist were mostly chartered by governments exploring the New World – the Dutch East India Company and the Hudson Bay Trading Company, for example.

The rush to build railroads toward the middle of the 19th Century sparked the format of today's corporation. For the better part of six to eight decades it was "no holds barred" for corporations. That "dog eats dog" environment lasted until early in the 20th Century when President Theodore Roosevelt blew the whistle that eventually led Congress to investigate the two most powerful businesses of that era, the Standard Oil Trust and J.P. Morgan's vast holdings in steel and railroads. The hearings examined their operational practices -- collusion on shipping rates and pricing at the pump, lack of safety measures to protect workmen, passengers and the public and other practices that "bigness" brought about. The ultimate result was that Standard Oil was split into about a dozen free standing, independent companies and the railroads were forced to reorganize and answer to a government regulatory body called the Interstate Commerce Commission.

It is of interest to note that public relations was at hand throughout the hearing. Ivy Lee, a pioneer in the evolution of public relations as a business discipline, was employed by the Rockefeller family as adviser to the Standard Oil legal team. Previously, Lee had been a business reporter for a New York newspaper.

World War I created numerous companies whose stock was traded on the New York Stock Exchange, the American Stock Exchange, the Over-the-Counter market (now NASDAQ) and local exchanges in cities like Chicago, San Francisco and Philadelphia. The market boomed through most of the 1920s –on the first trading day of 1928 the Dow Jones industrial index from was 191; twenty months later, on October 29, 1929, after reaching a high of 381, the market collapsed. At its lowest point in July 1932 the Dow Jones was 41 points. The collapse created what is now known as the Great Depression, which lasted the remainder of the decade -- until World War II -- when the job market called for hundreds of thousands men (and women) to produce the tools of war.

In the meantime, Franklin D. Roosevelt, a former governor of New York, was elected President. Inaugurated in March 1933 to the first of four terms, one of his first initiatives was creating the Securities and Exchange Commission to regulate stock exchanges, brokerage firms and banks engaged in stock transactions. It had its own investigative apparatus and power to levy fines and otherwise punish firms that violated its regulations. Its mission was to "clean up the market."

The Roosevelt years were good years for public relations as a business discipline. Whereas up to that time, dealing with the media was the principal function of the public relations professional, the task of dealing with bureaucrats in Washington was formalized and the person held responsible for the function increasingly was the chief public relations officer. It also resulted in the opening of several public relations firms in Washington which specialized in what we now categorize as public affairs.

Even before Roosevelt was elected president, "big business" and the American public, in an informal manner, evolved an unwritten code of conduct that defined the relationship between the two entities. It was a statement of the obligations of big business in exchange for the public franchise granted corporations to do business in the United States.

The first of five anticipated commitments was that the corporation would manufacture products that served public needs, priced fairly and replaced if defective. The second was that the corporation would provide steady jobs and a safe and healthy environment for employees and compensate them fairly. Third, the corporation would support public activities in communities in which it had operations such as schools, cultural institutions, hospitals and other charitable services. Fourth, it would treat suppliers fairly. And fifth, having accomplished the above, its investors would be entitled to a fair return on its investment, the key words being "a fair return on its investment."

That, in effect, describes the framework of the relationship between business and the public it served roughly from the end of World War I until the 1970s. Money managers then began to seek substantially greater return on their clients' investments to meet inflated retirement payrolls, both public and private. No longer would a "fair" return satisfy their investors. They relished receiving a "maximum return" on their investment. Nor was this to be a one-time bonus-type payout; it was going to last forever.

Wall Street financial analysts began creating quarterly earning targets for stocks in their areas of interest. In time, the Wall Street "consensus" became the accepted target number for the next quarter's earnings. And it often took precedence in the market place over the company's own internally developed estimate.

Listed companies seemingly took the position that they would live with the new ground rules. The first several quarters were easy: the situation provided a great opportunity to rid the company of under- and non-productive assets, including under-performing employees. Or they could increase the deductible on company-provided health insurance. Those decisions were easy to make.

But the easy ones became fewer and fewer as the quarters rolled by. CEOs and CFOs looked at other parts of the business which could be curtailed. For example: research and development or perhaps training programs or even lower cost substitutes for product ingredients or reducing the content a couple of ounces (but retaining the same packaging with the content breakdown in the smallest type face available). And, in recent days, the latest pot of gold at the end of the rainbow: merge with a foreign company and move corporate headquarters to a foreign country whose tax rate is substantially lower than ours in the United States.

These pressures have made it exceedingly difficult to manage a U.S.-based corporation. In recent polls, so-called "big" business ranks alongside Congress in public approval -- the lowest since polling came into being.

This situation has been highly frustrating to me because I think the talents and capabilities inherent to the public relations process have not been seriously brought to bear in speaking up for business. Sure, some, if not many, individual companies and industries have been successful lobbying for their specific pet objective. The ethanol producers got their Federal government subsidy and the tariff protection that protected them from Brazilian competition, the medical device industry got its tax abatement and the gun enthusiast can purchase weapons originally designed for real warfare. As for Presidential campaign oratory, it has sidestepped issues that would make American industry – and the job of the CEO – more viable.

Business needs a battle plan – "big" business especially. Fleeing to a lower tax haven is not a permanent fix. Nor does it contribute to the solemn promises made by our nation's founders – the promise of a nation that would provide its citizens with life, liberty and the pursuit of happiness. We as the senior officer charged with our company's reputation cannot take the position that what's happening in the stock market is beyond our pay grade. At the least, for our own self-evaluation, we must have the satisfaction of having warned our bosses, the CEOs to whom we report, that the present stance of corporations vis a vis public attitudes is a matter of serious import that affects both our own employees and our customers.

The situation in which large corporations and their CEOs now find themselves is not without precedent. Business suffered a severe turndown in public attitudes in the mid- and late 70s, mainly during the Carter administration. Out of it came a new word that described the economy: "stagflation." Inflation went off the charts for the American economy; for a time U.S. bonds paid 16 per cent interest, unemployment was almost ten per cent, and the economy generally was going no where. Business – "big" business – took a beating from both the politicians and the media as the prime cause.

The business community was fortunate indeed that four CEOs were willing to confront what had grown into a serious reputation problem. They were John DeButts of AT&T, Reginald Jones of GE, Frank Carey of IBM and Irving Shapiro of DuPont and each spoke up for business and dealt with the misconceptions at the very highest level. President Carter was once quoted as saying that the four CEOs spent as much time in his office as any cabinet member. And, in time, the poll numbers for public attitudes showed a marked improvement.

Although most of what I read about public relations nowadays seems to say that communicating is 95 per cent of what public relations people do, I maintain that counseling on matters of corporate behavior is equally important in the execution of our jobs. I believe the most senior public relations officer is or should be the active on-guard protector of the company's reputation. That person not only advises on what the company says, but, equally important, what the company does. Whether it be a price increase or abandoning a line of products, the effect on the company's reputation must be factored in the decision. And the chief public relations officer should be part of that discussion.

In a perfect world, at this time of the year the chief public relations officer should be reviewing the corporation's mission statement and make a judgment on whether the company has lived up to its commitment to its multiple constituencies. Such judgments should be based on hard evidence and, in areas where it has fallen short, corrective actions should be undertaken to make up for the short fall.

The ideal situation in the case of the hurdle today's business community must overcome would be for one of the major business organizations – the Business Roundtable, for example - - to organize and implement a program that spoke for our unique capitalist market system .

The alternative is to continue the sporadic outcries of individual business entities which feel they have been mistreated by the media. The result of a specific company response is frequently a reinforcement of the original down-putting claim especially if the company's explanation contains false or self-serving information.

Meanwhile, the business community can expect a lengthy period of uncertainty in the treatment it can expect from Congress regardless of the election outcome. On the horizon are regulatory measures that have serious impact on the economy overall. This means that 2016 we in public relations, especially those associated with large companies, will have a full plate. This, I believe, provides yet another opportunity for us to validate the value of the public relations/communication officer as a member of the CEO's leadership team.

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