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Social license

Peter Firestein suggests managers should change the model for how companies communicate

Earlier this year Citigroup promised to look carefully at changing its protocols for lending to ecologically questionable projects. In turn, the Rainforest Action Network promised to cease its celebrity advertisements in which movie stars like Susan Sarandon and Ed Asner tore up their bank cards on TV. The agreement between the bank and the NGO marked a rare moment of cooperation in an atmosphere notable for its absence.

The general mistrust arising out of recent scandals and mega-collapses has created an unprecedented set of challenges for corporate managers. New regulations, such as those contained in Sarbanes-Oxley, may be the least of their problems, as the simmering war between corporations and society goes far beyond matters of financial reporting and government oversight. Today, everyone has gotten in the act – NGO's who monitor environmental and human rights matters; shareholder activists, including some of the largest pension funds; anti-globalization advocates of all stripes; corporate governance watchdogs; the press.

At the same time, the Internet has created a public super-consciousness, delivering extraordinary – some would say asymmetrical – leverage in which everyone has access to immense stores of information. Groups opposing virtually anything can now organize both message and massive action with push-button ease.

Undercurrent of paranoia

This democratization of corporate oversight has created an undercurrent of paranoia in corporations. Risk management has, in many cases, evolved into risk aversion. Managers – including those with the strongest sense of responsibility – are concerned that they no longer know the rules, or the rules will change in unforeseen ways. This is how an appropriate focus on ethics has led, at times, to a business passivity no one can afford.

Managements must come to grips with the fact that a new business model prevails. The old fortress-style corporation, where information was a protected competitive asset, has crumbled as an idea. The new scrutiny requires an intensified search for consensus.

Corporations that can resist their defensive instincts have available an effective way of building the essential consensus. It lies in a transformed approach to communication that goes beyond financial reporting to reveal the values, intentions and fundamental character of the company. This Age of Skepticism, therefore, has brought us a new and rather stunning paradox: Self-revelation as a risk management tool.

Reputation, it is said, is built drop by drop, but lost by the bucketful. And corporate reputation has never been more important or fragile. This dilemma is deepened by management isolation caused, in part, by the misperception that the dialogue about a company is uncontrollable.

The good news is that there is much a company can do to educate even its most sophisticated stakeholders. It depends on a communication based on understanding their views. Such understanding can be acquired only by asking – through extended conversations and in-depth inquiries that bring management the thinking that governs stakeholder decisions.

Committed communication

One initial benefit is that the simple act of asking demonstrates commitment. Communications based on knowledge of underlying attitudes earns companies a heightened level of engagement with stakeholders. A shared vocabulary emerges, and, eventually, it becomes a communication of convergence whose primary effect is to enhance the company's sustainability.

Another paradox: Among the early leaders in such pre-emptive communication are certain energy and mining companies – prime targets of environmentalists. BP, for example, has negotiated with each occupant of land along its thousand-mile pipeline through Azerbaijan, Georgia, and Turkey. It has given appropriate NGO's the responsibility to allocate $25 million in "social investment" along the route. Is BP altruistic? It is not. But it has recognized, through outside pressure and a sober reading of the landscape, the terms it must meet to maintain its social license to operate.

In coming years, similar consensus-building will be necessary for any company that clears land for manufacturing plants, alters infrastructure to do so, hires workers in inexpensive countries, or lends money to others who do such things. To say nothing of every listed company needing to maintain investor confidence.

It may have seemed unlikely that a couple of actors cutting up their bank cards would sway the world's strongest financial institution. But Citigroup seems to have looked into the future and decided, after due deliberation, to get ready for it.

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