




**Building Trust
in Corporate
Communications**

Candor, Conversation, and Commitment



Corporations invariably tie themselves in knots whenever they try to avoid being straight with the public.

AFTER THE DISASTROUS AND FAILED Bay of Pigs invasion in the early months of the Kennedy administration, President Kennedy came before the Washington press corps and said this:

“The president of a great democracy such as ours, and the editors of great newspapers such as yours, owe a common obligation to the people: an obligation to present the facts, to present them with candor, and to present them in perspective. It is with that obligation in mind that I have decided in the last 24 hours to discuss briefly at this time the recent events.”

Kennedy stepped before the “den of vipers,” as the Washington press corps is often affectionately referred to, and accepted full responsibility and blame for the government’s role in the “invasion.” He committed himself, right then and there, to the press corps (but, more important, to the American people) to learn and do better. Ever since, this moment of failure and candor has been cited by pundits, historians, and public relations experts as a prime example of treating your audience with forthrightness, clarity, and candor. As it turns out, honesty is the best policy.

In a world of accelerating complexity—politically, economically, technologically, and financially—there is no better time for corporate America to recommit to three principled, time-tested practices of communication: candor, conversation, and commitment.

Sadly, it would seem that in today’s corporate and government communications, the message has become more important than its meaning. With books such as George Lakoff’s *Don’t Think of an Elephant: Know Your Values, Frame the Debate* and Frank Luntz’s *Words That Work: It’s Not What You Say, It’s What People Hear*, one might come to believe that not what you mean but what you say is all that matters. There’s much useful advice in both books, but the alarming trend they seem to capture is that governing and leadership have become all about what we say, not what we do.

In this article, we hope to lay out the current state of affairs, to propose a better way, and to exemplify that way by walking through two key moments in a hypothetical case study as a large insurance company demutualizes.

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The (Mostly) Current State of Affairs

Though most respectable public relations texts and journals advocate for clear, concise, and honest communication, something happens on the journey from the classroom to the boardroom. Corporate communication (and government affairs communication, too) often becomes an exercise in manipulation, confusion, and messaging rather than in creating reliable meaning and effective action. Here are just a few techniques.

The stone wall. Perhaps driven by understandable and very real fears of litigation, some companies in crisis simply remain quiet or in a stubborn repetition of denial. “If we say it isn’t so, we’ll make it so,” they believe.

A case in point. After Union Carbide’s deadly poisonous gas leak in India in 1984, within days, a key representative of the company engaged in this unhelpful volley with a reporter. *Reporter:* I think you’ve said the company was not liable to the Bhopal victims?

Spokesperson: I didn’t say that.

Reporter: Does that mean you are liable?

Spokesperson: I didn’t say that either.

Reporter: Then, what did you say?

Spokesperson: Ask me another question.

Somehow, some believe in magical thinking that clamming up will reduce or mitigate litigation. Litigation follows, nonetheless, not to mention the public relations troubles from saying too little.

The smoke screen. Most public relations advisers suggest that saying nothing most often allows your opponents, enemies, and critics to paint you just as they wish. So if you have to say something, don’t let the public see you for who you really are, warts and all.

“Pay no attention to that man behind the curtain,” the great Oz continues to say. Don’t lie, but don’t exactly tell the truth either, especially in difficult circumstances. (Who lies about rapidly escalating share prices or the best quarter of revenues in five years?) Companies use doubt, uncertainty, and carefully framed language. A classic example: In 1971, a tobacco company public relations manager said, “Doubt is our product, since it is the best means of competing with the ‘body of fact’ that exists in the mind of the general public.”

The mouthpiece. Given a highly skeptical public that mistrusts most of its leaders, it’s understandable that corporate and government leaders don’t expect to be believed. So what do they do? They set up sham fronts or mouthpieces with a modicum of credibility (or, at least, seeming independence) to do their bidding. If you aren’t quite certain about the merits of the No Child Left Behind Act, pay a respected African-American journalist to tout it on your behalf to a frustrated and highly skeptical constituency.

Organizations such as the “Coalition for Health Insurance Choices” or “Citizens for Sensible Acid Rain Control” sound respectable and independent enough, but they were funded almost solely by (respectively) the Health Insurance Association of America and public utility companies. Sadly, in the search for legitimacy, legitimacy is undermined.

The block and blame. When all else fails, the practical advice seems to be “pass the buck.” No, it wasn’t the leadership in charge of detainees at Abu Ghraib; it was a few “bad apples.” No, it wasn’t the company’s mistreatment of its workers; it was human error by a failed employee.

After the Exxon Valdez spill, it didn’t take long for the company to place the blame squarely, and seemingly solely, on the captain. (However flawed he may indeed have been, who hired him? Who managed him? Who was in charge of quality control? Who owned the vessel?) Exxon’s president told the press: “This incident should never have happened. In my view, it was human failure that it did happen.”

It’s always the trial lawyers, the bad apples, the vast right-wing conspiracy that’s to blame, not the individuals in charge, with authority and power, who made the mistake. So much for Harry Truman’s “the buck stops here.”

Clearly, a different approach is needed, an approach that’s consistent, ongoing, deliberate, decent, and effective.

Why? What we’ve learned over the past 30 years of vast change and numerous challenges is that societies function best with a high degree of social trust. A robust, efficient, well-functioning free market couldn’t be brought to life in post-Soviet Russia because the social institutions such as

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the courts—civil society in general—were dysfunctional.

Foreign aid is rarely that useful unless it’s delivered with the contingency that corruption and bribery can be reduced or minimized. Iraq has proved to be such a challenge because, after decades of a repressive, sadistic regime and over a decade of harsh sanctions, the Iraqis have been left with little trust in one another or any form of government. The bold legacy of the American experiment is great individual freedom coupled with high social trust that people and institutions will do what they say.

But even in the United States, trust in government and other authority has eroded steadily over the past 40 or more years. In the most recent University of Michigan Institute for Social Research survey released in mid-2007, 33 percent of those polled said they believe that Washington can be trusted to do what is right “just about always” or “most of the time.” That’s far short of the 76 percent score the government drew in 1964.

In a Gallup/*USA Today* poll conducted since 1981, the share of respondents who said “business is the biggest threat to the country in the future” rose from 22 percent to 38 percent. It’s time to help rebuild that social trust, the necessary glue of functioning markets, government, and society.

A Different Approach

There is a better way. The “three C’s” of corporate communication, aimed at building and maintaining social trust, long-term relationships, reputation, and long-term value, are candor (rather than dishonesty), conversation (rather than just selling, cross-examining, or persuading), and commitment (rather than words and promises divorced from action). These ideas are based on work since the 1970s at the Program on Negotiation at Harvard Law School (a consortium of numerous academics throughout greater Boston) in a variety of fields from law to business to planning to public policy.

Let’s imagine a hypothetical situation and play out the standard approach versus this mutual gains approach.

Background

A major life insurance company’s board of trustees and senior management have decided it’s in the best interest of the company to convert to a stock life insurance company. The company, Grand Mutual, has some 3 million policyholders. The company is estimated to be worth between \$12 billion and \$17 billion, depending on whom you ask and how the valuation is calculated.

The management cites the general reasons that this change is in the best interest of the company and its policyholders. First, and most important, a company converted to stock will have much greater access to capital markets, thus being able to manage risk and growth much more effectively than the capital limitations imposed by a company organized as a mutual insurance company.

Second, a board of directors will be more accountable to shareholders than the older form of governance. Over time, this will increase value and decrease risk to its policyholders and stockholders.

A Prospectus is Issued

Grand Mutual prepares a prospectus for its policyholders to explain the reasoning for the conversion, and, of course, to meet regulatory requirements. The company knows that regulators will be watching closely, and almost every conversion has resulted in some kind of litigation by some minority of disgruntled policyholders (or, as some say, by greedy, ambulance-chasing attorneys seeking a windfall in these complex transactions involving billions).

The requisite consultants, lawyers, actuaries, and compliance officers are put to the task of preparing a terse, to-the-point prospectus. The charge to this team is to provide the bare minimum of information required by law and standard practice that will be defensible in a court of law to protect the company, particularly its board of trustees and management. That the prospectus ought to

actually inform and educate the policyholders about making the best decision possible (after all, it’s their money) is not given much thought. The idea that being candid about the complex transaction and offering a reasonably balanced, clear, and fair prospectus about the pros, cons, risks, and uncertainties of each occurs to no one on the management team. It’s a vicious world in which litigation aversion must be the primary goal to protect everyone.

The Mutual Gains Approach

Now, imagine that Grand Mutual takes the mutual gains approach. Just as in the standard approach, a team of seasoned lawyers, actuaries, technical writers, and compliance officers is put to the task

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of preparing a prospectus. The charge to this team, however, is to prepare a prospectus that: 1) seeks to educate the policyholders about the complex transaction; 2) seeks to offer a fair and balanced rationale for the pros and cons, risks and uncertainties associated with the choice of the status quo versus the conversion; 3) is upfront and candid about the benefits that a conversion will bring to policyholders, management, and future stockholders; 4) is clear and candid about how the mission of the company as a mutual entity providing “insurance at cost” will change; 5) offers both a thorough document for analysts and the capital markets and a more “mom and pop” version that can be understood by average policyholders and their insurance brokers; and, 6) will meet regulatory requirements and be defensible in a court of law *and* in the court of public opinion.

Once this “two part” prospectus is prepared, the company doesn’t stop there. It realizes that the documents have been prepared mostly by sophisticated insiders. It’s not clear how effective the company has been in actually communicating effectively, candidly, and clearly to its policyholders.

So, it takes another step with the draft prospectus. It first organizes a set of focus groups of typical policyholders and brokers from around the country. These focus groups are asked to review the prospectus ahead of time and, in conversation with fellow focus group participants, asked to remark frankly and honestly on what’s unclear, unbalanced, or potentially misleading. This information is summarized and shared with the team, and the prospectus is revised accordingly.

Grand Mutual also recognizes that its internal constituencies are very important. Doubt, skepticism, and unhappiness from

employees can lead to press “leaks” and off-the-record comments, usually in the negative. (Positive views from inside are simply seen as cheerleading while negative views are seen as leads to “the truth.”) Thus, Grand Mutual engages in an internal process to educate employees fairly and clearly about the implications of the arrangement and the cultural and organizational changes that may follow.

To ensure an ongoing forum for communication and conversation with its policyholders during the whole process, the company, through a separate and independent nonprofit entity, convenes a 25-person advisory group. Grand Mutual wants to ensure that it’s talking to and with its policyholders, or at least a proxy for them. Throughout this conversion, it wants to learn, make adjustments, adapt, and correct any mistakes as quickly as possible.

This group is composed of policyholders and brokers who represent a rough distribution of all policyholders in terms of geography, education, socio-economic status, race, and ethnicity. The group is paid a nominal sum to participate and for its travel, and is asked to provide its best, collective advice during the process.

This group reviews the revised prospectus and offers its final advice on the document. In a bold and controversial stroke, Grand Mutual also elects to include as an adviser to the group an attorney who has been an active litigant against other demutualizations. The CEO of Grand Mutual argues passionately that, in the spirit of Abraham Lincoln, it’s better to have your critics in your tent rather than outside. If nothing else, she argues, a capable critic will ensure your arguments, approach, and actions are tested, rigorous, and robust.

The Valuation of the Surplus Is Challenged

The prospectus is issued. Even before the vote is taken, complaints begin to stream in that the valuation of the surplus is wrong. The independent attorney advising the policyholders group warns that several of his colleagues see a substantial legal opening for future litigation in the valuation. “They’re champing at the bit and can’t wait,” he says. The complaints generally state that the methods the company has been using to estimate the policyholders’ contributions to Grand Mutual’s surplus, the numbers on which compensation will be based, aren’t best practice and undervalue policyholders’ collective worth by as much as \$5 billion.

In the typical approach, the company would immediately circle the wagons. Grand Mutual, on the other hand, sends its actuarial team members off to confirm the numbers. Since it’s “their numbers,” confirm they do.

At first, the company ignores the complaints, assuming they’re the concern of a few disgruntled people or a few folks hoping to cash in. The numerous expert demutualization consultants say: “Don’t worry. This is perfectly normal. We’ve seen this before.” But the concerns and angry complaints keep coming in and, to the company’s alarm, increase in number. Someone, Grand Mutual fears, is rabble-rousing.

The company hires a public relations firm to assist in getting

its message out to policyholders (soon to vote on the demutualization), analysts, and the market. The firm quietly hires a few well-known retired actuaries to defend the valuation. The press releases on the matter claim: “A few disgruntled individuals have raised the unmerited and scurrilous concern that Grand Mutual has undervalued its surplus to harm its policyholders.”

The company requests that the CEO hold several conference calls with analysts, vigorously and strongly defending the valuation. “I stand by this valuation 100 percent,” the CEO says. “The policyholders *are* this company, so we owe them accuracy in this important matter.” Of course, to herself, the CEO says: “I hope to heck my team is as good as I and they think they are.”

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The Mutual Gains Approach

In the mutual gains alternative, Grand Mutual takes a very different tack. First, Grand Mutual waits to see if the complaints are limited or if they’re significant enough to warrant serious attention.

When the complaints continue, the company reconvenes its diverse stakeholder group to ask for advice. Grand Mutual management recognizes that useful, diverse advice from stakeholders is going to be valuable, especially in the face of increasing concerns, internal pressure to “stick to your guns,” and consultants whose advice is biased by their own incentives and desires to see the deal done.

Management brings the data of complaints, as well as the substantive issues raised, to the advisory committee. The advisory group weighs in: This is serious and must be dealt with fairly and honestly. After much discussion, Grand Mutual decides to approach the challenge to the valuation as a substantive matter. Grand Mutual decides to employ “joint fact finding” to ensure that the key facts in the transaction aren’t only professionally credible but legitimate and trustworthy in the eyes of many.

With the advisory group’s help, Grand Mutual frames three key questions:

- 1) Is the current valuation determined according to best professional practice?
- 2) What are the assumptions and uncertainties that might affect the valuation significantly?
- 3) Is there a different valuation that can be more reasonably defended and supported?

After framing these key questions, Grand Mutual asks the advisory group to identify and select an independent team of analysts who haven’t worked for Grand Mutual before to answer the key questions. Grand Mutual agrees to fund this team but

to have it managed and ultimately accountable to a well-known trade association (with all the promises of confidentiality regarding proprietary material in place, of course, for the experts) rather than directly to Grand Mutual. The advisory group selects those skilled, independent experts, and they're tasked to return (quickly) with answers to the questions.

When the expert team has completed its initial work, it's asked to present its detailed findings and analysis to the advisory group in a two-day workshop. After receiving extensive input from the advisory group in that workshop, the independent team offers its final advice in a written report.

With that information in hand, to the surprise of many, the company does adjust the valuation of the surplus (though internally, there was much heated debate). With the advisory group's help, Grand Mutual develops an addendum to the prospectus to explain the change and, just as important, to explain more clearly the methods and assumptions behind the new valuation.

Do a few critics still complain that even the adjustment is too low? You bet. But the complaints cease for the most part. In fact, Grand Mutual receives several highly complimentary letters from policyholders, thanking the company for its honesty, clarity, and action on the matter.

Summarizing the Mutual Gains Approach

What are the common threads in our Grand Mutual case above? In the mutual gains approach, the company never loses sight of a few core beliefs:

- Striving for honesty and clarity *at all times* is a significant and solid investment in long-term value;
- The company and its professionals can't and don't always know everything;
- Diverse stakeholders in the company have not only financial ownership but also skills, perspectives, and judgment that can be of great value to the company;
- Building mutual gain requires close attention to internal as well as external constituencies;
- Criticism is an opportunity to improve one's knowledge, accuracy, and legitimacy;
- In today's world, one can't presume trust in the judgment of decision makers; senior executives and the companies they represent have to earn it each and every day.

In the above example, Grand Mutual finds multiple ways to try to ensure candor. It seeks out advice about how to explain complexities better to multiple audiences. It doesn't shy away from criticisms, but confronts it head-on with a question: "Could they be right, and we wrong?" And it finds a means to settle that question.

Second, Grand Mutual seeks out conversation. It isn't just interested in defending, persuading, or avoiding; it realizes that ongoing deliberation, even with its critics, ensures better information, better knowledge, and a more robust, defensible action.

It's willing to convene and use outside advisers, from laypeople to former critics to independent professionals. It also understands that internal communication efforts are tightly bound with the

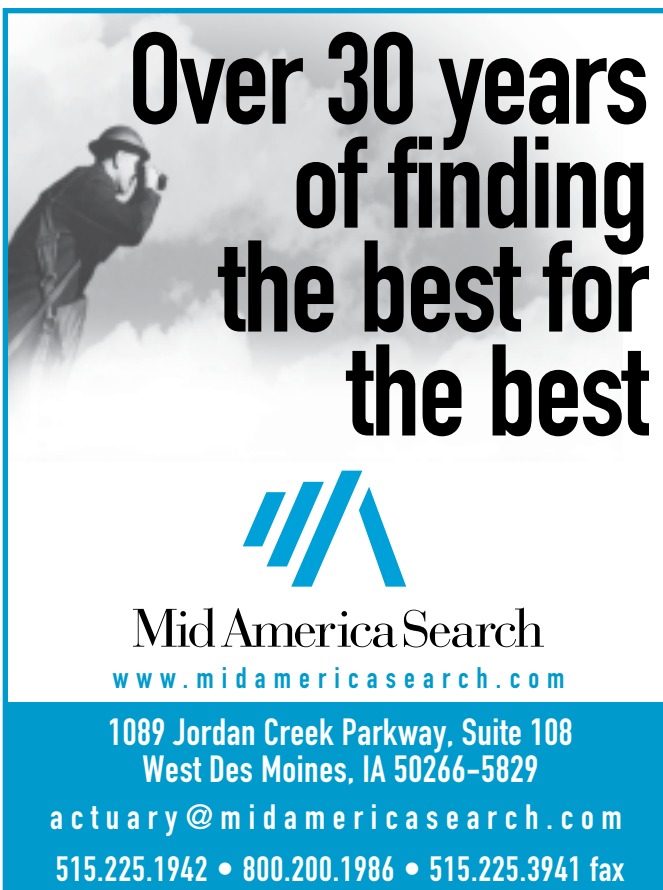
external ones. There is no "protected" space from which information, worry, and difficulty can't escape.

Third, Grand Mutual isn't afraid of commitment. It's willing to act. It doesn't simply say: "We'll look into it." The company actually immediately takes action to understand and ensure (or adjust) its claims. And its actions have follow-through. It reviews the valuation, realizes it has to be changed, and with courage, changes it and explains that change as forthrightly as possible.


Simple as the mutual gains approach is, is it easy to implement? Absolutely not. Legal constraints, fast-moving events, critics with ulterior motives, internal pressures, group-think, instant media looking for a crises or corporate failure to seize on, all make acting fairly, calmly, and honestly quite difficult.

The mutual gains approach, however its core principles are put into operation, takes time, patience, and courage—the core elements of leadership. In the words of Warren Bennis, an astute student of leadership: "It is not enough for a leader to do things right; he must do the right thing." ●

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