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for laborers, as documented in Upton Sinclair's book, *The Jungle*. The exploitation of young women and children working in factories, highlighted by the deadly Triangle Shirtwaist Factory fire in 1911, only added to negative perceptions of business.

As the patriarchs of big business, the Carnegies, Mellons, and Rockefellers—"robber barons," as they came to be known—were perceived as corrupt businessmen looking out for their own interests rather than the good of all citizens. And yet these negative attitudes toward the first modern corporate businessmen were coupled with envy of their material wealth. Most Americans wanted the lifestyle of these business magnates and came to see the pursuit of wealth and the security it provided as part of the "American Dream." The concept of social mobility, captured in author Horatio Alger's rags-to-riches novels, seemed to many to be a tangible reality in America's cities, and immigrants came to the United States in large numbers.

The 1920s were characterized by a sharply rising stock market following the conclusion of World War I and by increasing disparities in wealth distribution. These disparities—between rich and middle class, between agriculture and industry—made for unstable economic conditions, while speculation in the stock market fueled its growth to unprecedented levels. The stock market "bubble" finally burst in 1929, giving way to the Great Depression, which would last a decade and affect the rest of the industrialized world. It was a dark time for businesses and individuals alike.

By the mid-1940s, however, businesses started rebounding from the Depression as companies geared up for the Second World War. The steel industry, the automotive industry, the military-industrial complex—all of which made the prosperity of the 1950s and 1960s a reality—got their start during World War II.

Perhaps the epitome of this era, considered by many a "golden age," was the "Camelot" years of the Kennedy administration. The economy was booming, and in the aftermath of the Cuban missile crisis, the United States felt it had defused the tensions of the Cold War. Even after Kennedy's death, prosperity continued, and public approval of business soared.

Over a period of 30 years, the marketing consultancy firm Yankelovich asked the question of American citizens: "Does business strike a balance between profit and the public interest?" In 1968, 70 percent of the population answered yes to that question. By the time Richard Nixon was on his way to the White House, however, the nation was torn apart by civil unrest, with the continuation of the civil rights struggle and demonstrations against U.S. involvement in the Vietnam War. Disagreement over the role of the United States in Vietnam marked a serious deterioration in public attitudes toward all institutions, including business. For those who were against the war, the executive branch of government came to stand for all that was wrong with America.

Because it helped to make the war possible and profited from the war, American industry was the target of much of the public's hostility. Dow Chemical's manufacture of Napalm and Agent Orange, which would be used to defoliate Vietnamese jungles, led to student protests on American university campuses. Young people in the United States came to distrust the institutions involved in the war, whether

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TABLE 1.1
How Much
Confidence
Do You Have
in These
Institutions?

Sources: Yankelovich
Monitor; Harris Poll.

	1966	1971	1989	2011
Large companies	55%	27%	14%	13%
U.S. Congress	42%	19%	10%	6%
Executive branch	41%	23%	27%	19%
Supreme Court	51%	23%	26%	24%

*Answers reflect those answering most positively.

government agencies or businesses. This belief represented a dramatic change from the attitudes Americans had during World War II. Those in power failed to see how the Vietnam War was different because Americans were ambivalent about what the country was fighting for.

Toward the end of the 1960s and coinciding with the war in Vietnam, a rise in radicalism in America marked the beginning of a long deterioration of trust in institutions. The events of the early 1970s also contributed to this shift. For example, Watergate only confirmed what most young Americans had believed all along about the Nixon administration. The aftermath of the oil embargo, imposed by Arab nations after the 1973 Middle East war, had even more of an effect on attitudes toward business in America. Cheap, abundant petroleum—the lubricant of the American way of life—suddenly became scarce and expensive as Saudi Arabia and other Arab producers punished the United States for supporting Israel in the war. The cutoff lasted less than three months, but its effects on consumer attitudes are still with us today.

As a result of Watergate, Vietnam, and the oil embargo, by the mid-1970s American attitudes toward business reached an all-time low. In answer to the same question "Does business strike a fair balance between profit and the public interest?" those answering yes in the Yankelovich poll dropped to 15 percent in 1976 when Jimmy Carter took office. This drop of 55 points in just eight years says more about the changing attitudes toward business than a thousand anecdotes.

An opinion research poll that asked members of the general public to rate their confidence in a number of institutions showed declines in all areas, as shown in Table 1.1.

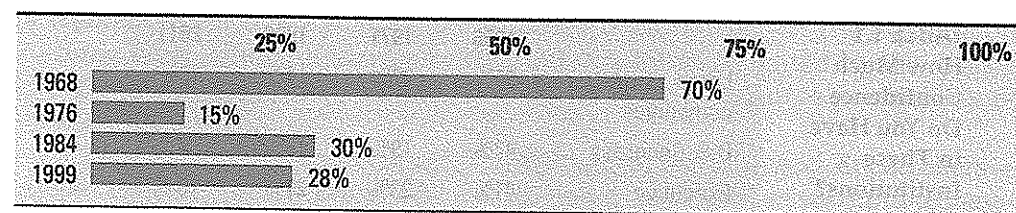
As you read this, you may be asking yourself whether the 1980s and 1990s, which together constituted the final economic boom of the twentieth century, restored America's faith in business to where it had been in the 1960s. They did not, and in 2011, a Harris Poll asking the same questions found the responses to be as follows: trust in major companies, 13 percent; U.S. Congress, 6 percent; White House, 19 percent; and Supreme Court, 24 percent.¹ These percentages all decreased from 2010, indicating a confidence crisis that has reached critical mass; the 2010 results for the aforementioned institutions were 15 percent, 8 percent, 27 percent, and 31 percent, respectively.²

¹ Harris Poll May 2011.

² Harris Poll March 2010.

TABLE 1.2
Does Business
Balance Profit
and Public
Interest?

Source: Yankelovich
Monitor.



*Percent yes responses.

In response to the question about whether business strikes a fair balance between profit and the public interest, the percentages climbed back to a high of 30 percent answering yes in 1984. And the percentages dropped slightly to 28 percent in 1999 (the last year Yankelovich asked this question). (See Table 1.2.)

The nuances of American distrust of business are further explored by Yankelovich Partners through the following findings:

- 80 percent of surveyed respondents believe that "American business is too concerned about profits, not concerned about responsibilities to workers, consumers and the environment."
- 70 percent believe that "if the opportunity arises, most businesses will take advantage of the public if they feel they are not likely to be found out."
- 61 percent believe that "even long established companies cannot be trusted to make safe, durable products without the government setting industry standards."³

A more recent study commissioned by the Public Affairs Council finds that the American public still believes companies are failing to correctly prioritize their constituencies: 83 percent of respondents believe that businesses should put customers, employees, or their communities first; 81 percent of responders feel that companies are instead valuing top executives or shareholders first.⁴ The source of the disconnect between upstanding business practices and the current business reality could be one of many factors. First, we must consider the economic instigators.

The 1990s saw the phenomenal rise of the NASDAQ index to 4,000 points by the end of the decade. Individual investors were actively participating in the equity markets and reaping enormous gains as stock prices seemed to be on an unstoppable upward trajectory. Then, in the spring of 2000, the markets came crashing down. By December, the NASDAQ had sunk to less than half its peak level of 5,000, reached at the beginning of the year. And unfortunately for the 100 million individual investors who had poured money into the market during the Internet-fueled boom of the 1990s, it did not stop there in its downward spiral. By early 2002, these individuals had lost \$5 trillion since the "Internet bubble" burst, representing 30 percent of their stock wealth.⁵

³ J. Walker Smith, Ann Clurman, and Craig Wood of Yankelovich Partners, Inc., *Point*, February 2005, <http://www.RacomBooks.com>; results from Yankelovich MONITOR.

⁴ Public Affairs Council, *Public Affairs Pulse*, 2011.

⁵ Marcia Vickers, Mike McNamee, et al., "The Betrayed Investor," *BusinessWeek*, February 25, 2002, p. 105.

With the bursting of the "dot.com bubble"; the exposure of corporate fraud at large companies such as WorldCom, Adelphia, and Tyco; and the collapse of Enron and its auditor, Arthur Andersen, due to fraudulent accounting, Americans perceived business as actively trying to deceive them. This perception was reflected in the media as well, such as in the *NBC Nightly News* segment entitled "The Fleecing of America."⁶

In the midst of this market turmoil, the actions of unscrupulous financial analysts (see Chapter 8 for more on analysts) and companies like Enron angered the American public further. By February of 2002, some 81 percent of investors polled "did not have much confidence in those running Big Business."⁶ This attitude is not surprising when you consider the many highly publicized stories of top executives who sold millions of dollars' worth of shares in their own failing enterprises, further enhancing their wealth as rank-and-file employees lost much of their retirement savings.⁷

The public also has been embittered by the growing pay gap between senior company executives and ordinary workers that reached enormous proportions over recent decades. According to the AFL-CIO, in 1980, CEO pay averaged 40 times the pay of the average American worker, and by 2010, it averaged 343 times the pay of the median worker, for an average of \$US 11.4 million per year.⁷ In October 2011, the Congressional Budget Office reported that the middle 60 percent of the American population experienced a growth in household incomes of 40 percent between 1979 and 2007 (after taxes and adjusted for inflation), while the top 1 percent of earners experienced a growth in household incomes of 275 percent. The study also confirmed that the after-tax household income of the top 20 percent of earners was greater than the combined after-tax income of the remaining 80 percent of workers. While top earners enjoy lucrative compensation packages, today 15 percent of Americans live in households receiving food stamps and 48.6 percent live in households receiving some form of government assistance, according to 2010 Census data.⁸ Economist and *The New York Times* contributor Paul Krugman refers to this period of increasing income inequality, which he believes started in the late 1970s, as "The Great Divergence." He writes that it is more a product of conservative politics, tax law that is favorable to the wealthy, and inflated executive compensation than it is a product of less personal forces including globalization and technology.^{9,10}

Although executive compensation in general is a controversial subject, in the wake of the 2008 subprime credit crisis, public scrutiny has focused on the outsized annual bonuses doled out on Wall Street. Americans were especially outraged that

⁶ *Ibid.*, p. 108.

⁷ "Executive PayWatch," <http://www.afcio.org/corporatewatch/paywatch/ceopay.cfm>.

⁸ Sara Murray, "Nearly Half of U.S. Lives in Household Receiving Government Benefits," *The Wall Street Journal*, January 17, 2012.

⁹ Paul Krugman, "Introducing This Blog," *The New York Times*, September 18, 2007, <http://krugman.blogs.nytimes.com/2007/09/18/introducing-this-blog/>.

¹⁰ "Trends in the Distribution of Household Income between 1979 and 2007," Congressional Budget Office, October 2011, <http://www.cbo.gov/ftpdocs/124xx/doc12485/10-25-HouseholdIncome.pdf>.

financial firms receiving public TARP rescue funds could use the money to pay out executive bonuses. In March 2009, insurance giant A.I.G. earned negative press when it decided to award multimillion-dollar bonuses to its executives despite having just received a \$US 100 billion government bailout. In the summer of 2009, then New York attorney general Andrew Cuomo, released a report that detailed compensation at the largest New York-based banks that received public bailout money. The report revealed that Merrill Lynch had paid 149 bonuses greater than \$US 3 million and 696 bonuses greater than \$US 1 million, despite being in such dire financial straits that it had to merge into Bank of America in early 2009.¹¹ In July 2010, Kenneth R. Feinberg, who was appointed by President Obama to oversee executive compensation during the bailouts, released a report claiming that nearly 80 percent of the \$US 2 billion that banks paid out in 2008 bonuses were unmerited.¹²

Increased tension over growing income inequity combined with relatively high unemployment rates in the United States sparked the Occupy Wall Street movement, a protest against corporate greed and corruption. The largely peaceful Occupy Wall Street movement started in September 2011 in Zuccotti Park in lower Manhattan and quickly spread to other U.S. cities as well as cities around the world, including Paris, London, Berlin, Hong Kong, and Rome.¹³ Occupy Wall Street organizers made extensive use of social media and published a daily newspaper to communicate news and marching orders with participants. Organizers executed a branding campaign for the movement based on the slogan “we are the 99%,” meant to highlight the growing income gap between the top 1 percent of earners and the remaining 99 percent. Critics of the Occupy Wall Street movement deride the movement for lacking clear focus and actionable objectives. However, the Occupy Wall Street movement, which was still ongoing in early 2012, though at a dramatically reduced scale, emphatically underscores the growing public discontent with the traditional big business.

At the very beginning of the protests, the Occupy Wall Street movement received minimal television and newspaper media coverage, but much coverage through social media such as Twitter.

Indeed, through the years, the traditional news media have played a major role in conveying, filtering, and obstructing messages from corporations as well as government and activist groups (see Chapter 6 for more on the media’s influence on business). By the late 1990s, the Internet also began to shape attitudes toward business as activist groups gained access to a broadcast forum for their arguments against business. Today, environmental activists, animal rights groups, and shareholder rights proponents have the ability to get messages out instantaneously to like-minded individuals throughout the United States and the world. In the case of the Occupy Wall Street movement, the videos of protestors posted on YouTube and the flood of tweets coming out of Zuccotti Park quickly became “too viewed” for traditional media to ignore.

¹¹ Stephen Grocer, “Wall Street Compensation—No Clear Rhyme or Reason,” *The Wall Street Journal*, July 30, 2009.

¹² Louise Story, “Topics: Executive Pay,” *The New York Times*, December 5, 2011.

¹³ Alan Taylor, “In Focus: Occupy Wall Street Spreads Worldwide,” *The Atlantic*, October 17, 2011.

Although the media and the Internet are powerful channels for views on business to be expressed and debated, nowhere are the attitudes that prevail in the external environment more clearly defined than in television and film.

Hollywood: A Window on Main Street and Wall Street

Throughout history, literature and the arts have both affected and reflected perceptions about institutions. Greek attitudes about government and religion manifested themselves in theater; Shakespeare shaped notions about English history for generations; and in the United States, cinema and television over the past several decades have reflected some of the public’s negative attitudes about business.

For many Americans today, what they see in fictional or “factional” accounts in films and on television helps shape their attitudes more than educational institutions. In fact, Americans spend far more time in front of the television set, or watching media content online, than they do in the classroom. According to research undertaken by a number of different organizations, the average American household spends approximately 40–50 hours per week watching television programming. Many have written about what this habit has done to American society in a broader context over the last 30 years, but in this textbook, we will focus on the relationship between popular culture and business.

The Media Institute, a research organization funded by corporations, has been tracking media coverage of business for over 20 years. Each time it issues a report, the results are the same: Businesspeople are portrayed negatively in almost two-thirds of all television programs. Researchers have concluded that half of the time, businesspeople portrayed on television were involved in criminal activities.

In addition, most Americans get their news from television. As a result, the negative portrayals viewers see in fictional programming blend into the negative news they watch on the nightly news. An individual might, for example, watch an episode of *Law and Order* in which a woman is framed for murder after raising questions about her company’s back-dating of stock options one night, then see an in-depth story about United Health doing the same thing on *Dateline NBC* the following evening. This information all comes from television, all of it is bad, and the net result is the reinforcement of negative perceptions of business.

Films also contribute to a negative business image. One of the most successful films of the late 1970s was called *The China Syndrome*, a movie about a narrowly averted meltdown at a nuclear reactor. A week after the release of the film, a real nuclear accident occurred at Three Mile Island. While everyone would agree that Metropolitan Edison did a poor job of communicating about this accident, few would say that the company was as bad as the one portrayed in the movie. For many Americans, however, the two events were linked, which made their reaction to the events at Three Mile Island that much stronger.

It is eerie how Hollywood has mirrored events in business at exactly the right time. The movie *Wall Street* is another such example. Oliver Stone’s movie came out just ahead of the great scandals that rocked the real Wall Street in the late 1980s. Even within the film itself, reality and fiction were intertwined. Gordon Gekko,

the evil financial genius meant to represent someone like the notorious arbitrageur Ivan Boesky, makes a speech in the film about greed. "Greed is good, greed purifies, greed cuts through and captures the essence of the evolutionary spirit," Gekko says in a passionate speech at an annual meeting. Months earlier, the real Ivan Boesky had made a similar speech to a group of graduates at the University of California's Berkeley campus.

Are these examples instances of "life imitating art"? More likely, it is the other way around. As long as business has a negative public image, movies and television will continue to dramatize real-life tales of corporate wrongdoing. As Hollywood exports a large number of American films to countries around the world, these images become part of a global informational tapestry that we explore in more detail in the next section.

The Global Village

Technology has strengthened communication channels around the globe, disintegrating national borders to produce what Canadian philosopher Marshall McLuhan foresaw decades ago—the creation of a world so interwoven by shared knowledge that it becomes a "Global Village."¹⁴ This trend has had a monumental impact on business, particularly over the last two decades.

In 2002, the U.N. Conference on Trade and Development published an article stating that 29 of the world's top 100 economies were multinational businesses rather than countries.¹⁵ Thus, it may not be surprising that individuals have begun to turn to large companies to provide the direction that distinct national cultures, communities, and inspirational narratives offered more strongly in the past. Coupled with this shift is a heightened level of interest in social responsibility on the part of organizations. Later in this book, we will discuss the growing importance of corporate social responsibility and its implications for corporate reputation, but generally, the public is looking for companies to demonstrate care for the communities in which they operate from both an environmental and human perspective.

In his book *The Mind of the CEO*, Jeffrey Garten explains, "As the world gets smaller, CEOs will be unable to escape involvement in some of the most difficult political, economic and social problems of our times. There will be no way to avoid operating in countries with fragile economies, weak democratic structures and mega-cities with severely overburdened infrastructures."¹⁶

Disintegrating national borders, coupled with the liberalization of trade and finance in today's Global Village, also have fostered an increase in cross-border corporate mergers and the number of multinational corporations. Today, companies tend to specialize in their core competencies and outsource what remains or,

¹⁴ Marshall McLuhan and Bruce R. Powers, *The Global Village: Transformations in World Life and Media in the 21st Century* (New York: Oxford University Press, 1989).

¹⁵ Progressive Policy Institute, "The World Has over 60,000 Multinational Companies," April 27, 2005, http://www.ppionline.org/ppi_ci.cfm?knlgAreaID=108&subsecID=900003&contentID=253303.

¹⁶ Jeffrey Garten, *The Mind of the CEO* (New York: Basic Books, 2001), p. 24.

alternatively, merge to integrate the suppliers into their own organizations. As lower-cost professional service companies in developing markets diversify their offerings, a Goldman Sachs study estimated that as many as 6 million jobs could move overseas by 2013.¹⁷ The 2011 PricewaterhouseCoopers Global CEO survey reveals that 59 percent of CEOs were planning to deploy more staff on international assignments, 34 percent planned to complete a cross-border merger or acquisition, and 31 percent planned to outsource a business process or function.¹⁸

With international mergers and acquisitions diluting once-definitive borders and empowering big business further, many individuals and communities object to the enormous political clout that large corporations wield today. This sentiment gave rise to the "antibrand" and "antiglobalization" movements that flourished in the mid-1990s—a decade in which global companies began to replace government bodies as the primary target of many activists worldwide. This movement continues to percolate today, as supported by Yankelovich Partner Peter Rose's comments during a January 2007 speech made to the Inland Empire United Way: "Ten years ago, 52% of Americans said that 'the brands you buy tell a lot about the person you are.' In 2005, just 41% agreed with that statement." He continued by rationalizing this shift in perspective, referring to the following quote from the Clue Train website (launched in 1999):

A powerful global conversation has begun. Through the Internet, people are discovering and inventing new ways to share relevant knowledge with blinding speed. As a direct result, markets are getting smarter—and getting smarter faster than most companies. These markets are conversations.

Rose then incorporated the concept of brands into this "conversation," saying, "The Internet hasn't put brands into the conversation. The Internet has simply changed the technology people use to come together with one another. In the process, the Internet has emerged as the new medium of Social Engagement. . . . Looking ahead, the success of brands will be tied to the success in connecting people with each other, not to connecting people with brands."¹⁹

This analysis circles back to the public's overwhelming distrust in business as it continues to gain momentum in a global context and the subsequent challenges businesses have in delivering their brands to an accepting audience. The 2011 Edelman Trust Barometer revealed that 56 percent of Americans say they trust business to do what is right.²⁰

This "global conversation" also accentuates the volume at which these negative feelings can be heard. With it, the antiglobalization movement extends beyond traditional union bodies to include young and old consumers, concerned parents, and vocal student activists alike. An anticorporation sentiment was formalized on paper in October 1997, when Earth First! produced a calendar listing important anticorporate protest dates and announcing the first "End Corporate Dominance

¹⁷ Sue Kichhoff and Barbara Hagenbaugh, "Economy Races Ahead, Leaving Jobs in the Dust," *USA Today*, October 1, 2003.

¹⁸ 2011 PricewaterhouseCoopers Global CEO survey.

¹⁹ Peter Rose, Partner, Yankelovich, speech delivered to the Inland Empire United Way, January 31, 2007.

²⁰ 2011 Edelman Trust Barometer.

Month.²¹ Since then, organizations such as Vancouver-based Adbusters Media Foundation, which was founded in 1989, have risen to a dominant position as nonprofits that devote themselves to deriding corporate giants—a practice now officially referred to as *culture jamming*.²² Plastering the image of Charles Manson's face over a Levi's jeans billboard, hurling pies at Bill Gates, and dumping garbage bags full of shoes outside of Nike Town to protest Pakistani children manufacturing Nike soccer balls for six cents an hour are some of the routine tactics culture-jamming activists have employed to make anticorporate statements to the public.²³ "The Authentic Enterprise," a report released by the Arthur W. Page Society in the fall of 2007, neatly summarized the reality of a global economy as major driver of the changing business environment:

Free trade agreements, the Internet and the emergence of highly skilled populations in developing regions have created a 'flat world.' This is reshaping the footprint—and even the idea—of the corporation. It's shifting from a hierarchical, monolithic, multinational model to one that is horizontal, networked and globally integrated. Because the operations and responsibilities of organizations can now be compartmentalized, 'virtualized' and distributed over an ecosystem of business relationships, work can now be located wherever it makes sense, driven by the imperatives of economics, expertise and open business conditions.²⁴

The continual technological advances of the Internet—namely, blogs and social networks—also have made it difficult for companies to prevent both positive and negative news about them from reaching individuals in virtually all corners of the world. Media outlets have expanded their reach such that events are no longer confined to local communities; rather, they can create reverberations felt worldwide. In 2011, the United Nations International Telecommunication Agency estimated that there are 6 billion cellular-mobile phone subscriptions worldwide and that global cellular-mobile phone penetration is 87 percent.²⁵

The organization also estimates that one-third of the world's population is online, with 45 percent of users under the age of 25.²⁶ In 2010, there were an estimated 152 million blogs, 25 billion tweets sent on Twitter, and more than 600 million Facebook users.²⁷ Data suggest that these numbers will only continue to increase as consumers assume further control of corporate reputations and communicate with one another in real time, 24/7.

Business leaders today therefore must be prepared not only to handle the international media spotlight but also to proactively counter the advocacy groups looking to use today's media environment to compromise their corporate reputation—and bottom line—globally.

²¹ Naomi Klein, *No Logo: Taking Aim at the Brand Bullies* (New York: Picador USA, 1999), p. 327.

²² *Ibid.*, p. 280.

²³ *Ibid.*

²⁴ "The Authentic Enterprise," Arthur W. Page Society, 2007.

²⁵ "The World in 2011: ICT Facts and Figures," International Telecommunication Union, November 2011.

²⁶ *Ibid.*

²⁷ Joshua Norman, "Internet in 2010: 107T E-Mails, 255M Websites," *CBS News*, January 13, 2011.

How to Compete in a Changing Environment

Even well-respected companies face attacks in this antibusiness environment. Gillette (now part of Procter & Gamble), for example, was the target of animal rights groups that successfully used teachers and children to create a stir over the company's research methods. One letter to Gillette's former chairman, Alfred Zeien, said: "Let this be a warning to you. If you hurt another animal, if I find out, one month from [the day] this letter arrives to you, I'll bomb your company. P.S. Watch your back." The letter came from a sixth grader at a school in Philadelphia. As homework, his teacher had assigned letters to companies about animal testing.²⁸ While the children's campaign had no effect on market share, the company worried about potential long-term effects: "Long term, this could be a very bad trend for the business," said CEO Zeien.²⁹

When Walmart faced allegations of unfair treatment of employees, including forcing hourly wage earners to work off the clock, favoring men over women in pay and promotion, and locking employees in stores after closing until managers visited every department, the media pounced on the opportunity to deface the corporate behemoth. In 2000, a female Walmart employee named Betty Dukes filed a sexual discrimination suit against the company that would eventually become a class-action suit representing 1.6 million females. The case finally made its way to the highest court in the United States, the Supreme Court, in 2011, and although the court ruled that the plaintiffs had too much variation in their complaints to merit a class-action suit, Walmart endured negative press for 11 years during the proceedings. A journalist who covered the story turned her research into a book called *Selling Women Short: The Landmark Battle for Workers' Rights at Wal-Mart*, and likened Betty Dukes to civil rights activist Rosa Parks.

Beyond the scrutiny it receives in traditional media outlets, Walmart is also the target of vitriolic social commentary online, with an ever-growing list of anti-Walmart blogs and social groups forming to collectively criticize its controversial business practices. This added dimension of communication, coupled with the reputational risk factors it fosters, raises a key question: How can managers adapt to the challenges of a business environment that is constantly in flux but seems to be moving in the direction of greater scrutiny and less favorable impressions of corporations? In the next section, we will look at some of the ways companies can stay on course while navigating these choppy waters.

Recognize the Changing Environment

First, managers need to recognize that the business environment is constantly evolving. The short-term orientation of today's managers rarely gives them an opportunity to look at the big picture of how this changing environment affects the company's image with a variety of constituencies. Over the long term, this perspective can have damaging results.

²⁸ Barbara Carton, "Gillette Faces Wrath of Children in Testing of Rats and Rabbits," *The Wall Street Journal*, September 5, 1995, p. A1.

²⁹ *Ibid.*

Coca-Cola took note when, in January 2006, the University of Michigan suspended the purchase of its products on campus.³⁰ This now classic business case had nothing to do with pricing or the products themselves; rather, it was taken based on concerns over environmental concerns in India and labor issues in Colombia. Among the allegations was a contention that products contained unacceptable levels of insecticides (PepsiCo's products were also found to contain unacceptable levels of pesticides).

The business and communication implications of this revelation and the university's subsequent reaction are manifold: First, the University of Michigan's decision was prompted by one man, Amit Srivastava, who ran a small nonprofit out of his home in California. He mobilized students on campus to petition for the ban—an organizational feat that, just a few years before, would have been unthinkable. Second, these visceral reactions on the part of students applied so much pressure that the company agreed to open its overseas facilities to independent, transparent, third-party environmental and labor audits.³¹ Third, the event points to a major evolution in business: Sustainable business practices are becoming core brand values that can inspire change. Coca-Cola's sustainability efforts changed dramatically over the course of a year, and the company appeared among the 2007 Global 100 Most Sustainable Corporations in the World. It is still considered a leader in sustainability today, as we will discuss further in Chapter 5.

One of the most important challenges facing senior managers is the profoundly unsettling impact of technological change. Andrew Grove, cofounder and senior advisor to the executive management of Intel Corporation, explained, "We make a cult of how wonderful it is that the rate of [technological] change is so fast. But . . . what happens when the rate of change is so fast that before a technological innovation gets deployed, or halfway through the process of being deployed, [an] innovation sweeps in and creates a destructive interference with the first one?"³² Although many agree that technology has helped business, it also has led to greater uncertainty for business leaders and consumers alike.

Unlike many shifts in the market that companies can anticipate by keeping their fingers on the pulse of change, such as evolving consumer tastes, technological innovations can happen swiftly and have profound effects. Companies need to quickly determine what, if anything, they need to do to respond to such changes.

Adapt to the Environment without Compromising Principles

Second, companies must adapt to the changing environment without changing what they stand for or compromising their principles. Chemical giant Monsanto faced challenges when its foray into genetically engineered crops met with resistance from protesters who labeled its products "Frankenfoods." Protests were

³⁰ <http://www.umich.edu/news/?BG/procmemo>.

³¹ Ibid.

³² Garten, *Mind of the CEO*, p. 32.

not limited to the company's headquarters in St. Louis but spread to some of Monsanto's large, visible customers, forcing McDonald's, for one, to announce that it would no longer use the company's genetically modified (GM) potatoes.³³

This issue ultimately took its toll on the company's stock price in the late 1990s, even though the company met Wall Street expectations. In response, Monsanto adopted a new approach to handling the "GM backlash" through education and outreach. Historically, the company had been perceived as aggressively marketing products that the public did not understand or trust. Now, Monsanto communicated "The New Monsanto Pledge," which outlined five key elements: dialogue, transparency, respect, sharing, and delivering benefits.³⁴ Although the company continued to produce GM foods, its collaborative approach to working with consumer groups and farmers to foster greater understanding of biotechnology's role in food production was viewed positively by many who had previously opposed Monsanto.

Arie de Geus of the MIT Sloan School of Management analyzed the strengths of what he defined as "living companies"—a group of 30 companies ranging in age from 100 to 700 years scattered throughout North America, Europe, and Japan.³⁵ One of the primary reasons these companies—including DuPont, W.R. Grace, Sumitomo, and Siemens—have managed to endure has been their ability to adapt to the rapidly evolving environment in which they live. De Geus explains: "As wars, depressions, technologies, and politics surged and ebbed, they always seemed to excel at keeping their feelers out, staying attuned to whatever was going on. For information, they sometimes relied on packets carried over vast distances by portage and ship, yet they managed to react in a timely fashion to whatever news they received. They were good at learning and adapting."³⁶

Don't Assume Problems Will Magically Disappear

Third, assume things will only get worse in today's complex environment, especially with the ever-growing prevalence of consumer-generated media and online communications platforms. For example, twice, Sony executives have let a bad situation turn worse before addressing the fallout. In October 2005, a blogger broke the story that Sony BMG Music Entertainment distributed a copy-protection scheme CD that contained rootkit software, which self-installs on computers and allows hackers to access the systems, posing huge security threats. Within hours, the story was percolating throughout the blogosphere, but Sony executives turned a blind eye, and Sony BMG's president of global digital business, Thomas Hesse, made matters worse with this statement to NPR on November 4: "Most people don't even know what a rootkit is, so why should they care about it?"

Needless to say, the problem didn't disappear over time. Bloggers, traditional media, and consumers grew increasingly incensed by the company's disregard,

³³ Jonathan Low and Pam Cohen Kalafut, *Invisible Advantage: How Intangibles Are Driving Business Performance* (Cambridge: Perseus Books, 2002), p. 114.

³⁴ Ibid., p. 115.

³⁵ Arie de Geus, "The Living Company," *Harvard Business Review*, March 1, 1997.

³⁶ Ibid.

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and class-action lawsuits soon followed. Six years later, in April 2011, Sony again found itself facing public outrage for its poor handling of the aftermath of a serious hacking incident. The hacking, which affected an estimated 77 million customers and compromised sensitive user personal data, occurred between April 17 and April 19. Sony did not inform customers of the breach until April 26. As a result of the delayed communication, Sony faced consumer wrath in the blogosphere and inquiries from multiple governments, including the U.S. House of Representatives and the city of Taipei, Taiwan. One senator sent an angry public letter to Sony, writing, "Sony's failure to adequately warn its customers about serious security risks is simply unconscionable and unacceptable."³⁷

In both cases, had the company's executives anticipated the length of the story's appeal, and had they addressed the issues at their inception in the blogosphere, they no doubt would have changed their communication strategy. Most managers assume that the American public has a short memory about the problems companies face. In fact, consumers have longer memories than you might think, as witnessed by boycotts of companies such as Coors, Walmart, Nike, and Shell.

Some companies seem to be getting it right, but most are still getting it wrong. What's more, all constituent groups—from employees to investors to consumers—are taking advantage of changes in the business environment that empower them to increase their personal gains. For example, in autumn 2007, two separate situations took place on opposite coasts, in New York City and Los Angeles, that illustrate unique communication strategies.

On November 5, 2007, screenwriters took to the streets of Hollywood, initiating the first industry-wide strike in more than 19 years.³⁸ Under the representation of the Writers Guild of America, approximately 12,000 movie and television writers formed picket lines in response to failed negotiations with Hollywood producers over their stake in new media revenue, including downloaded movies and online promotional showings of movies and television shows.

The strike crippled the industry, as networks such as CBS and ABC had to shut down production of major primetime shows. Clearly, producers could not just hope the problem would disappear, but their communications and negotiation strategies posed interesting nuances. For example, a *BusinessWeek* article entitled "Behind the Hollywood Strike Talks" highlights an underlying factor:

What makes the often fractious negotiations particularly interesting this time are the underlying business-model challenges confronting both sides. Business models enable companies (and organizations such as the 12,000-member Writers Guild of America or the Alliance of Motion Picture & Television Producers) to create and capture value. . . . The traditional business models of both sides worked well when there were a handful of movie studios and three major TV networks. But now everyone can be a writer or a producer, and every computer is potentially a studio, able to create and publish content. More than 1 billion people on the planet are connected to the Internet, a healthy portion of them via high-speed broadband.³⁹

³⁷ Steven Musil, "Senator Slams Sony's Response to Security Breach," CNET.com, May 3, 2011.

³⁸ http://www.nytimes.com/2007/11/06/business/media/06strike.html?_r=1&oref=slogin.

³⁹ Henry Chesbrough, "Behind the Hollywood Strike Talks," *BusinessWeek*, November 1, 2007, http://www.businessweek.com/innovate/content/nov2007/id2007111_779706.htm?chan=search.

The Changing Environment for Business 15

The author of the article, Henry Chesbrough, executive director of the Center for Open Innovation at the Haas School of Business at University of California Berkeley, also highlighted another detail that will continue to play a more prevalent role in management and communication:

As it happens, consensus between the studios and the writers is not even necessarily the biggest challenge each faces. Much of the new online entertainment content is not coming from professional writers or producers at all. Rather, as others have noted, it is coming from users and user communities that stimulate one another to create content. . . . How this will shake out in the negotiations between the screenwriters and the AMPTP is hard to say. Both sides need to change some strongly held business models to seize new opportunities—a process that has many risks, but potentially lucrative rewards. However, if Hollywood cannot rise to the challenge, the independent, online creative communities stand ready to pounce. The one thing that seems sure is that neither side has a choice.

Coincidentally, as this contention heated up in Hollywood, a similar situation percolated in the Big Apple. On November 10, 2007, stagehands announced a strike of their own, and Broadway went dark. It was the first in the stagehand union's 121-year history, and it darkened 31 theaters.⁴⁰ Unlike the writers' strike, which hinged in the proliferation of new media and its role in generating revenue, the stagehand dispute focused on work rules in their contracts that the producers' league claimed to be expensive and inefficient. The league wanted to change these rules, and the consideration was not well received by the stagehands.

The strike lasted 19 days, during which time New York Mayor Michael Bloomberg offered to provide a mediator and a neutral place to negotiate; both offers were declined. What *The New York Times* called "a series of back-channel conversations between league members and union officials" eventually precipitated talks that ended with a resolution.

Again, it is difficult to assume a problem such as one that left Broadway dark would magically disappear, but the communications strategy proved to be much more traditional, and the strike itself was relatively brief compared with the writers' strike. Negotiations focused on work rules and were not clouded by the nebulous laws governing cyberspace. However, with digital communications platforms playing an increasingly integral role in overall management and communications, competition in the changing business environment continues to evolve.

Keep Corporate Communication Connected to Strategy

Fourth, corporate communication must be closely linked to a company's overall vision and strategy. Few managers recognize the importance of the communication function, and they are reluctant to hire the quality staff necessary to succeed in today's environment. As a result, communication people are often kept out of the loop.

Successful companies connect communication with strategy through structure, such as having the head of corporate communication report directly to the CEO.

⁴⁰ <http://www.nytimes.com/2007/11/29/theater/29broadway.html?em&ex=1196485200&en=a23b4406b383964e&ei=5087%0A>.

The advantage of this kind of reporting relationship is that the communications professional can get the company's strategy directly from those at the top of the organization. As a result, all of the company's communications will be more strategic and focused (see Chapter 3 for more on structure).

The aforementioned Arthur Page "Authentic Enterprise" report also urged enterprises to define and activate their core values in new ways, which "demands increased delegation and empowerment, while maintaining consistency of brand, customer relationships, public reputation and day-to-day operations. Values are the 'glue' shaping behavior and uniting coals. However, building a management system based on values is a significant challenge. Understanding what the company and its people truly value and turning that into pervasive behavior require new kinds of leadership, tools and skills."⁴¹

In Chapter 10, we will take a look at how Johnson & Johnson (J&J) handled the Tylenol cyanide crisis of the early 1980s. Part of what helped the company deal so successfully with this dire situation was the existence of the J&J Credo, a companywide code of ethics that spells out J&J's promises to its many constituencies. This credo helped guide the company's actions during an episode that could have irreparably damaged the Tylenol brand and possibly J&J itself. Thirty years later, the company was again under attack for its faulty production practices but still feeling the halo effect from its handling of this situation.

Companies' corporate communications teams play a pivotal role in defining a corporate mission—the cornerstone of a company's overarching strategy—and communicating that mission to internal and external constituents. Given today's rapidly changing environment, a clear-cut corporate mission not only keeps employees aligned with what the company is striving to be but also can act as a source of stability for consumers weary of the constant change surrounding them.

Conclusion

The business environment is constantly changing. Everyone in business today, whether at a large corporation with a national union to deal with or a small business looking to make its mark in the international arena, needs to communicate strategically. The way organizations adapt and modify their behavior, as manifested through their communications, will determine the success of American business in the twenty-first century.

⁴¹"The Authentic Enterprise," Arthur W. Page Society, 2007.

Case 1-1

Google, Inc.

After agreeing to censor Internet search results in China, Google, Inc. found its corporate mantra—breezily summarized by its founders as "Don't Be Evil"—under heavy fire in January 2006. The search engine giant knew bad publicity could be part of any trade-off if it wanted to become a major player in China's burgeoning economy.

Google had faced little besides fawning publicity from the tech press since its founding in 1998, though hints of the public relations headaches on the horizon for the company first surfaced at the close of 2005, when data and privacy concerns intersected with the U.S. Department of Justice. Google had refused to provide user information in a case the government was building against child pornographers, and as it watched its stock price fall, it had already begun wrestling with how to reconcile that decision with its stance on "Evil."

Public appetite for the company's products seemed only to have intensified since Google's successful—albeit unorthodox—initial public offering in 2004, but the company still feared that the January 25, 2006, launch of its new portal in China, Google.cn, would direct criticism back on the company. To operate the backend of its search engine, Google agreed that the portal would automatically filter results containing content considered objectionable by the Chinese government.

Knowing full well that it could become the poster child for the controversy surrounding market entry into the still-reforming China, Google's top executives also had to grapple with the reality that the company might truly be at odds with the golden image of its own making. Whereas once Google was able to tout its free-wheeling, creative culture, whispers in the press suggested that Google might be the next Microsoft Corp.—just another soulless,

inflexible, corporate behemoth. A December 2005 cover story in *BusinessWeek* magazine blared "Googling for Gold"¹ and suggested that the company's true interests were more pragmatic than pie-in-the-sky ideals, and a February 2006 headline of *Time* magazine asked, "Can We Trust Google with Our Secrets?"²

The situation escalated when U.S. Representative Tom Lantos, a Holocaust survivor and human rights advocate, began to speak out publicly against Google's entry into China, comparing its actions to those of U.S. companies that collaborated with Nazis prior to World War II.³ Already struggling to stay in front of the story, and sending out mixed messages when it came to its stances on privacy and open access to information, Google knew it needed to do something to clear its name—or risk becoming just another dot-com company.

TWO KIDS IN A SANDBOX

Google's well-documented roots began at Stanford University, where cofounders Sergey Brin and Larry Page met as doctoral computer science candidates in the mid-1990s. A shared love of technology made it only a matter of time before the two overcame their initial dislike of one another and began collaborating on projects outside the classroom.

Over the next few years, the duo worked tirelessly on a way to scan and index the information scattered across the Internet. Other search engines had attempted to do the same

¹ Roben Farzad and Ben Elgin, "Googling for Gold," *BusinessWeek*, December 5, 2005, pp. 60–66.

² Adi Ignatius, "In Search of the Real Google," *Time*, February 20, 2006, pp. 36–49.

³ "Q&A: Congressman Tom Lantos," *Red Herring*, February 17, 2006, <http://www.redherring.com/PrintArticle.aspx?a=15779§or=Q&And A>.

fastest responsiveness rate by users in China and was accepted as a clear leader in the market in terms of both brand recognition and usage rates.

But a study by Keynote Customer Experience Rankings acknowledged that the competitive advantages maintained by Google in the United States would be easily transferable to the Chinese market. Chinese customers ranked Google first, beating Baidu, Yahoo, and MSN, in categories such as search quality, image search, and reliability. According to the director of research and public services for Keynote, "We see that Chinese consumers really like the overall Google experience better. Eventually, this promises to translate into increased market share, particularly given Google's strong resources and focus on the market."⁸

With the introduction of Google.cn, Chinese users would be able to access the same search engine with a speed similar to that of Google.com in the United States. Although Chinese users would have previously received the same limited results, it would now be Google—and not the Chinese government—routing the inquiry through its own servers to remove banned content.

NGOS, COMPETITORS, AND CONGRESS MAKE NOISE

On the heels of Google's announcement of its official launch in China, a number of nongovernmental organizations (NGOs) soon voiced strong opinions against Google, a leader by any means in the online arena, engaging in any form of censorship.

Reporters Without Borders (RWB), a Paris-based public interest group acting as a media watchdog on an international level, had already established itself as the leading critic of U.S. search engines that agreed to censor material to gain access to international markets. Beginning in 2004, the group wrote to top U.S.

officials, pleading for a code of conduct regarding overseas Internet filtering and condemning attacks on what it considered to be the rights and freedoms of the press.⁹ When Google decided to enter the Chinese market two years later, the interest group leapt on the opportunity to bring the issue back into the spotlight.

"Google's statements about respecting online privacy are the height of hypocrisy in view of its strategy in China," said RWB in a January 25, 2006, press release, issued in response to Google's announcement.¹⁰ The group argued that continued censorship would only lead China to become even more isolated from the outside world, a worrisome prospect considering that a 2005 RWB survey of press freedom had ranked China 159 out of 167 countries.¹¹ "When a search engine collaborates with the government like this, it makes it much easier for the Chinese government to control what is being said on the Internet," said Julien Pain, head of RWB's Internet desk.

Meanwhile, Human Rights Watch (HRW), the largest human rights organization based in the United States, was preparing its testimony for a February 1 hearing before the U.S. Congressional Human Rights Caucus. The group had a history of investigating key human rights abuses, both within the United States and internationally, and then publishing its findings in an effort to draw exposure to the issue.¹²

The centerpiece of its argument was that the Chinese government would be unable to carry out censorship effectively without the cooperation of U.S. search engines. According to the group, the United States' dominance in the search engine market gave providers considerable leverage against any country that hoped

⁸ Reporters Without Borders, "About Us," http://www.rsf.org/rubrique.php3?id_rubrique=280.

⁹ "Google Move 'Black Day' for China," BBC News, January 25, 2006, <http://news.bbc.co.uk/1/hi/technology/4647398.stm>.

¹⁰ Howard French, "Despite Web Crackdown, Prevailing Winds Are Free," *The New York Times*, February 9, 2006.

¹¹ Human Rights Watch, "About HRW," <http://www.hrw.org/about/whoweare.html>.

¹² "Google Poses Strong Challenges to Leader Baidu in China, Reports Keynote," *Business Wire*, January 18, 2006.

to benefit in the Information Age. The group proposed that if all the search engines acted together in refusing to comply with Chinese censorship rules, they would be in position to push for free access within the country.¹³

But despite the strong stance, the group had yet to act on its threat of organizing an international boycott of search engine providers. "How much choice do you have if all of these companies are doing this?" asked Mickey Spiegel, Senior Researcher at HRW. "We're not going to stop using the Internet."¹⁴

Censorship issues aside, both Yahoo and Microsoft's MSN were already posing tough competition to Google's aims to advance its market share in China. Whereas Yahoo elected to place its bets on for the evolution of search engines, Microsoft had the resources to challenge Google in search capability and advertising.¹⁵ Both companies were already complying with Chinese censorship regulations before Google joined the fray and had grappled with their own negative publicity.

Yahoo! came under furious fire for giving the Chinese government information that was used to convict the Chinese Internet journalists Shi Tao in 2004 and Li Zhi in 2003.¹⁶ The company defended its actions by saying that it didn't know how the information would be used. "I do not like the outcome of what happens with these things," said Yahoo cofounder Jerry Yang. "But we have to follow the law."¹⁷ While Yahoo publicly encouraged the American government to handle the issue, the company said that it was too early for itself to recommend how.¹⁸

¹³ Tom Malinowski, "U.S.: Put Pressure on Internet Companies to Uphold Freedom of Expression," testimony before the Congressional Human Rights Caucus, February 1, 2006, <http://hrw.org/english/docs/2006/02/01/china12592.htm>.

¹⁴ Carrie Kirby, "Chinese Internet vs. Free Speech Hard Choices for U.S. Tech Giants," *San Francisco Chronicle*, September 18, 2005.

¹⁵ Ignatius, "In Search of the Real Google."

¹⁶ Kevin Delaney, "Yahoo Outlines Stance on Privacy and Free Speech," *The Wall Street Journal*, February 13, 2006, p. A8.

¹⁷ Kirby, "Chinese Internet vs. Free Speech."

¹⁸ Delaney, "Yahoo Outlines Stance."

In December 2004, MSN complied with an order from the Chinese government to close a site belonging to Michael Anti, a Beijing-based employee of *The New York Times* and one of China's most popular bloggers, who had been addressing sensitive political issues.¹⁹ Microsoft chairman Bill Gates responded by stating that "The ability to really withhold information no longer exists" and outlining a policy in which sites blocked by government restrictions would still be available in all other parts of the world.²⁰

Although not a direct competitor for Chinese market share, the physical networking provider Cisco Systems was one of the two U.S.-based companies that the Chinese government relied on for a 2004 network upgrade to improve substantially the government's ability to track Internet searches.²¹

Yahoo and Microsoft issued a joint statement on February 1 in support of a collaboration with Google, Cisco, and the U.S. government to create industry guidelines for handling governmental restrictions on their services in the future.²²

The Congressional Human Rights Caucus also met on February 1 to address "Human Rights and the Internet: The People's Republic of China," billed as an effort to encourage policy discussion among Internet companies. Attendance at the briefing was optional, and Yahoo, Google, MSN, and Cisco all chose not to attend.²³ Google released a statement the day of the briefing, thanking the caucus for the invitation and citing a previously scheduled commitment as its reason for not attending.²⁴ (See Appendix B for the official Google Blog.)

¹⁹ French, "Despite Web Crackdown."

²⁰ Robert McMahon, "Q&A: The Great Firewall of China," The Council on Foreign Relations, February 16, 2006.

²¹ Ibid.

²² "Lawmakers Blast Internet Firms over China," *Associated Press*, February 1, 2006, <http://www.msnbc.msn.com/id/11134689/from/ET/>.

²³ Ibid.

²⁴ Andrew McLaughlin, "Human Rights Caucus Briefing," Google Blog, February 1, 2006, <http://googleblog.blogspot.com/2006/02/human-rights-caucus-briefing.html>.

The statement also outlined Google's strategy for its operations in China, emphasizing the protection features it had put in place to minimize the harmful effects that its filtering system would have on information seekers. First, Chinese users would be notified when their search had been altered by the filtering system. Second, services such as GMail, chat rooms, and blogging—all involving users' personal information—would not yet be offered out of concern that the Chinese government could demand such information, as it had from Yahoo in prior instances. Third, large investments would encourage continued research and development within China.²⁵

For Representative Tom Lantos, head of the House International Relations Committee, the statement was not enough. "These massively successful high-tech companies, which couldn't bring themselves to send representatives to this meeting today, should be ashamed," he said. "They caved in to Beijing for the sake of profits."²⁶

A follow-up February 15 hearing was demanded by Representative Chris Smith, and before Congress could follow through on its threats to subpoena the four major companies, all indicated their plans to attend.

PRESSURE FROM SHAREHOLDERS AND CHINA

In the weeks leading up to the caucus hearing, Google's stock had already fallen nearly 7.5 percent, from a high of \$471.63 on January 11, which the company partly blamed on the Department of Justice request. Although the January 25 announcement to enter the Chinese market had been met favorably by investors, the release of poor final numbers in the fourth quarter of 2005 marked the first time Google had missed its earnings expectations, causing the stock to open with a loss in value of nearly \$15 billion the morning of the caucus hearing.

²⁵ "Google Censors Itself for China," BBC News, January 25, 2006, <http://news.bbc.co.uk/1/hi/technology/4645596.stm>.

²⁶ "Lawmakers Blast Internet Firms over China."

It would hit another low on the day of the hearing, falling to \$342.40.

In addition to its problems at home, Google found itself facing further headaches in China. A state-run newspaper would soon report that Google was under investigation by Chinese authorities for operating in China without a proper license²⁷ and, in an accompanying editorial, criticize Google for entering the Chinese market, only to complain about being required to follow Chinese law.

Chinese authorities had recently begun pressuring Google to eliminate the very protective measures the company had hung its hat on in its original statement to the caucus. The government wanted the notification that appears on the bottom of every filtered page gone, wanted to cut off roundabout access to Google's unfiltered search engine, and demanded that the company offer GMail and blogging services.²⁸

Page, Brin, and Schmidt had continued to argue that the benefits outweighed the costs of entering China. In a statement defending Google's original January 25 announcement, Senior Policy Counsel Andrew McLaughlin said, "While removing search results is inconsistent with Google's mission, providing no information—or a heavily degraded user experience that amounts to no information [which is what the Chinese government had been providing]—is more inconsistent with our mission."²⁹

Vint Cerf, who holds the title of Chief Internet Evangelist at Google, further justified the move in an interview. "There's a subtext to 'Don't be evil,'" he said, "and that is 'Don't be illegal.'"³⁰ As McLaughlin explained it on Google's blog, "We ultimately reached our decision by asking ourselves which course would most effectively

²⁷ Philip Pan, "Chinese Media Assail Google," *The Washington Post*, February 22, 2006, p. A09.

²⁸ Ibid.

²⁹ John Yang, "Google Defends Censorship of Web Sites," ABC News, January 25, 2006, <http://abcnews.go.com/Technology/print?id=1540568>.

³⁰ Ignatius, "In Search of the Real Google."

further Google's mission to organize the world's information and make it universally useful and accessible. Or, put simply: How can we provide the greatest access to information to the greatest number of people?"³¹

Still, Brin, Page, and Schmidt knew they had to develop a winning strategy to convince the market that Google could handle the balancing act between commerce and conscience and, in the process, reestablish their company as the innovative leader with a soul that it had been in the past.

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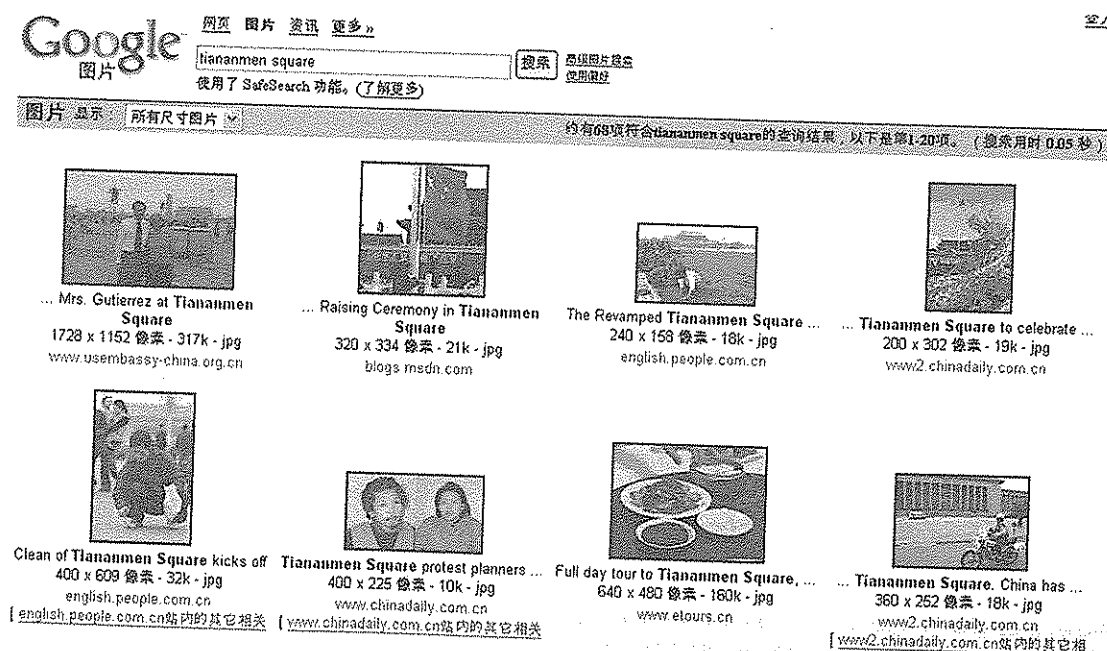
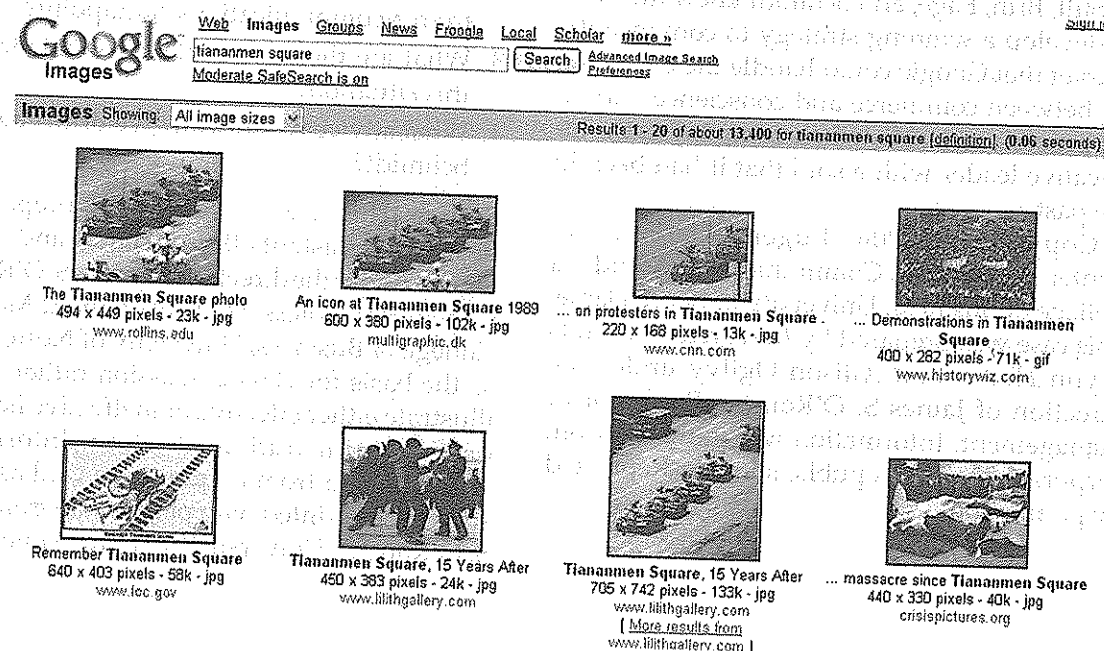
CASE QUESTIONS

1. How does the changing environment for business affect Google's ability to communicate in this situation?
2. Where is the company most vulnerable, from a communications standpoint?
3. What are the key problems Google faces in this situation?
4. What advice would you give Brin, Page, and Schmidt?

Source: This case was originally prepared by Research Assistants Brynn Harris and Allison Ogilvy under the direction of James S. O'Rourke, Concurrent Professor of Management, Mendoza College of Business, University of Notre Dame, as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. Information was gathered from corporate as well as public sources. Reprinted with permission from James S. O'Rourke, University of Notre Dame.

³¹ Andrew McLaughlin, "Google in China," Google Blog, January 27, 2006, <http://googleblog.blogspot.com/2006/01/google-in-china.html>.

Appendix A



Appendix B



GOOGLER INSIGHTS INTO PRODUCT AND TECHNOLOGY NEWS AND OUR CULTURE.

Human Rights Caucus briefing

2/01/2006 08:26:00 AM

Posted by Andrew McLaughlin, Senior Policy Counsel

For today's Member Briefing of the U.S. Congressional Human Rights Caucus on "Human Rights and the Internet—The People's Republic of China," we've submitted the following statement:

CONGRESSIONAL HUMAN RIGHTS CAUCUS MEMBERS' BRIEFING "HUMAN RIGHTS AND THE INTERNET—THE PEOPLE'S REPUBLIC OF CHINA" SUBMISSION OF ANDREW MCLAUGHLIN, GOOGLE INC. FEBRUARY 1, 2006

On behalf of Google, I would like to thank the Members of the Human Rights Caucus for inviting Google to participate in today's Member Briefing on Human Rights and the Internet in China.

Though previously scheduled commitments prevent me from appearing in person today, I reiterate Google's offer to participate in a

Member Briefing on another date, to brief Members individually, and to continue briefing staff on our activities in China.

I. GOOGLE.CN IN CHINA

The rationale for launching a domestic version of Google in China—a website subject to China's local content restrictions—is that our service in China has not been very good, due in large measure to the extensive filtering performed by Chinese Internet service providers (ISPs). Google's users in China struggle with a service that is often unavailable, or painfully slow. According to our measurements, Google.com appears to be unavailable around 10% of the time. Even when users can reach Google.com, the website is slow, and sometimes produces results that, when clicked on, stall out the user's browser. The Google News service is almost never available; Google Images is available only half the time.

These problems can only be solved by creating a local presence inside China. By launching Google.cn and making a major ongoing investment in people, infrastructure, and innovation within China, we intend to provide the greatest access to the greatest amount of information to the greatest number of Chinese Internet users. At the same time, the launch of Google.cn did not in any way alter the availability of the uncensored Chinese-language version of Google.com, which Google provides globally to all Internet users without restriction.

In deciding how best to approach the Chinese—or any—market, we must balance our commitments to satisfy the interests of users, expand access to information, and respond to local conditions. Our strategy for doing business in China seeks to achieve that balance through improved disclosure, targeting of services, and local investment.

A. IMPROVED DISCLOSURE TO USERS OF GOOGLE.CN.

In order to operate Google.cn as a website in China, Google is required to remove some sensitive information from our search results. These restrictions are imposed by Chinese laws, regulations, and policies. However, when we remove content from Google.cn, we disclose that fact to our users. This approach is similar in principle to the disclosures we provide when we have altered our search results to comply with local laws in France, Germany, and the United States. When a Chinese user gets search results from which one or more results has been filtered, the Google webpage includes an explicit notification—an indication that the search results are missing something that might otherwise be relevant. This is not, to be sure, a tremendous advance in transparency to users, but it is at least a meaningful step in the right direction.

B. TARGETING OF SERVICES ON GOOGLE.CN.

Google.cn today includes three basic Google services (web search, image search, and Google News), together with a local business information and map service. Other products—such as Gmail and Blogger—that involve personal and confidential information will be introduced only when we are comfortable that we can provide them in a way that protects users' expectations about that information. We are conscious of the reality that data is subject to the laws and regulations of the country in which it is stored, and we make decisions about where to locate our services with that reality squarely in mind.

C. LOCAL INVESTMENT AND INNOVATION.

Looking beyond the Google.cn launch, we will continue to make significant investments in research and development in China. We believe these investments—and the innovations that will result—will help us to better tailor our products to user demands and better demonstrate how the Internet can help advance key objectives supported by the Chinese government, such as building stronger, more efficient, and more equitable markets, promoting the rule of law, and bolstering the fight against corruption.

While China has made great strides in the past decades, it remains in many ways closed. We are not happy about governmental restrictions on access to information, and we hope that over time everyone in the world will come to enjoy full access to information. Information and communication technology—including the Internet, email, instant messaging, weblogs, peer-to-peer applications, streaming audio and video, mobile telephony, SMS text messages, and so forth—has brought Chinese citizens a greater ability to read, discuss, publish and communicate about a wider range of topics, events, and issues than ever before. We believe that our continued engagement with China is the best (and perhaps only) way for Google to help bring the tremendous benefits of universal information access to all our users there.

II. NEXT STEPS

1. Expanded Dialogue and Outreach. For more than a year, Google has been actively engaged in discussion and debate about China with a wide range of individuals and organizations both inside and outside of China, including technologists, businesspeople, government officials, academic experts, writers, analysts, journalists, activists, and bloggers. We aim to expand these dialogues as our activities in China evolve, in order to improve our understanding, refine our approach, and operate with openness.

2. Voluntary Industry Action. Google supports the idea of Internet industry action to define common principles to guide technology firms' practices in countries that restrict access to information. Together with colleagues at other leading Internet companies, we are actively exploring the potential for Internet industry guidelines, not only for China but for all countries in which Internet content is subjected to governmental restrictions. Such guidelines might encompass, for example, disclosure to users, and reporting about governmental restrictions and the measures taken in response to them.

3. Government-to-Government Dialogue. In addition to common action by Internet companies, there is an important role for the United States

government to address, in the context of its bilateral government-to-government relationships, the larger issues of free expression and open communication. For example, as a U.S.-based company that deals primarily in information, we have urged the United States government to treat censorship as a barrier to trade.

On behalf of Google, I would like to thank the members of the Human Rights Caucus for their attention to these important and pressing issues.