

THE MOUNT · VERNON · REPORT

“Issues Affecting Reputation Management and Strategic Communication”

The Truth and Your Bottom Line

Truth might seem like a simple concept, an objective and eternal absolute about which there is little contention. Yet Webster’s New World Dictionary offers six different definitions of the word, including sincerity, reality and an established fact. In the corporate world, the truth can be subjective – akin to Supreme Court Justice Potter Stewart’s “I-know-it-when-I-see-it” definition of pornography. *Modern audiences sift through an array of information, filtering all of it through their own personal and moral prism to satisfy themselves as to what is true.* Once they settle upon their truth, it becomes an enduring value that guides their present and future behavior. Violate that truth at your peril.

In this way, the truth creates and builds confidence in every type of corporate relationship involving shareholders, stakeholders, supervisors, employees, executives, media and analysts. As an essential element of reputation, the truth forms the foundation for all interactions in commerce, society and business. To succeed, what you do and what you say must be aligned with your actions and judged accurate, dependable and credible.

Microsoft Corporation’s never-ending struggle with allegations of monopolistic business practices; the mini-shareholder revolt at Computer Associates; the tire recall tug-of-war involving Ford and Firestone – all are examples of how truth intersected with reputation on the 2001 corporate playing field. But the spectacular debacle at Enron provides the most stunning display of the power of truth in corporate communications.

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Personal Perspective

There’s a delicious irony in the story of George Washington never telling a lie.

We learned in grammar school that young Washington cut down his father’s prized cherry tree on a lark. When confronted, he owned up to it and faced the consequences rather than tell a lie. An invention of biographer Mason Locke Weems in 1800, this fable has stood the test of time. Though pure fiction, it embodies the principles of goodness, fairness and truth synonymous with leadership and ethical behavior.

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Check Your Facts... What You Assume To Be “True” May Not Be The Truth At All

Repetition can create *facts* over time. News releases served as the jackhammers of the dot-com boom because inexperienced start-ups believed an endless stream of *news* and high-profile media placements would create a facade of substance for current and potential investors. Thus, the first to market can set the pace of *truth*.

Often, information gains credibility by virtue of its source. A neighbor can be more influential in determining what is true than a telemarketer, for example. If you need someone to

plow your driveway, you don’t go on the Internet – you ask friends who live nearby whom they use. Do all the research you want, but if your spouse’s best friend criticizes the vacuum cleaner you just bought, you might as well return it.

Sometimes, fate creates a truth that history will eventually refute. What follows are some examples of little-known truths from the world of business innovation that have been lost or obscured over time.

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In Washington's day, a person's word was sacred. Perhaps that is why scribes, artists and historians felt obliged to embellish the facts of his life to convey honesty and character. Did Washington endure enormous hardships while wintering in the bleakness of Valley Forge? Did he lead his troops across the Delaware River in open boats by cover of night to surprise the British? Did he initially decline to command the Continental Army because he felt others were more qualified? The answers are part myth and part truth, but these noble deeds capture the essence of Washington.

The lesson for businesses – and for all of us – is that when we make a mistake, it is best to admit it and apologize if we are in the wrong, then make amends and move on. Too much time and too many resources are spent in convenient rationalizations, split hairs and deflection, while too little time is spent in plain talk and honest answers. A reputation for truth-telling is a priceless asset for an individual, corporation or organization.

Corporations can behave nobly and selflessly, but credibility is hard earned. It

often requires sacrifice and the elevation of other's interests above your own. When people believe you, they give trust. They are ready to do business in good faith.



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Those who take action that considers the needs of the larger society – while still addressing the needs and expectations of customers, employees and shareholders –

are viewed as solid corporate citizens. They reap the benefits of having a truthful reputation; attracting more loyal customers, better employees and more tolerant shareholders. There are real financial rewards for telling the truth and taking actions that support your words.

In these troubling times, the truth is of great comfort. It is reassuring that after several years, when national leaders chose to lie or evade and business seemed based on shallow dot-com promises, we now appear to be on the brink of an era in which the truth counts for something more than words.

This issue of The Mount Vernon Report is devoted to the truth and its importance in business. Far short of an exhaustive examination, we steered clear of presumptuous preaching in the hopes of offering food for thought about the causal link between the truth and reputation. Enjoy! ❖

{ FACTS- cont. from pg. 1 }

•*Thomas Edison did not invent the first record player.* He invented the phonograph in 1877, but not for playing music. First, he thought wealthy gentlemen could use it to record their dying wishes. Later, he decided it could be used as a “speaking telegraph.” (Edison, by the way, lost virtually all of his hearing during his early teens.) Finally, he marketed the phonograph first as a dictation machine for businesses in 1888; then, in miniature form, inside “talking” dolls in 1889; and later, as musical home entertainment systems in 1896.

The invention would not be commercially successful until well after the first LP records began to be produced in 1929. It was Emile Berliner who invented the microphone that became part of the first Bell telephones – Berliner’s gramophone was the first record player to use disks.

•*Samuel Morse did not invent the telegraph.* He invented the improvements that drove the invention into the marketplace. Such a device was first proposed in 1753 and first built in 1774 – nearly

60 years before Morse came up with the prototype of the now famous code used to transmit telegraphic messages over a single-wire machine.

•*Henry Ford did not invent the automobile.* He invented the assembly line, the mass production breakthrough – based on the “division of labor” concept – that not only revolutionized the way cars were manufactured but also dramatically reduced their cost.

•*Guglielmo Marconi invented the radio to serve as a wireless telegraph* late in the 1894, but it was Heinrich Hertz – the father of “hertz” and “megahertz” – who discovered and first produced radio waves in 1888. Hertz had produced and detected the waves in very short distances across his laboratory. Marconi’s achievement was to produce and detect the waves over long distances, laying the foundations for what today we know as radio.

•Learning to type is hard for a reason – because the inventor wanted it to be. Christopher Latham Sholes, a mechanical engineer, invented the first practical modern typewriter, patented in 1868. But the keys jammed easily. To solve the problem, Sholes and business associate, James Densmore, decided to slow down typing by splitting up the keys for commonly joined letters. *Thus, today’s standard “QWERTY” keyboard was purposely invented as an inconvenience to customers – and as a convenience for typewriter salesmen, who could easily find the letters of the word “typewriter” on a single row!* (By the way, Pellegrino Turri built the first working typewriter in 1808 for his blind friend Countess Carolina Fantoni da Fivizzano.) August Dvorak, a professor and an efficiency expert, invented a keyboard in 1936 in which the middle row of keys includes the most common letters, and with common letter combinations positioned for quick typing. Proponents estimate that, during an average eight-hour day, a typist’s hands travel 16 miles on a QWERTY keyboard, but only 1 mile on a Dvorak keyboard. ❖

The Truth Pays...

Business and investment communities have long debated whether there is a real connection between socially responsible business practices and positive financial performance. Several academic studies have shown such a correlation.

No. 1 According to the 1999 Millennium Poll on Corporate Social Responsibility sponsored by PricewaterhouseCoopers, which surveyed over 25,000 consumers, “Two in three citizens want companies to go beyond their historical role of making a profit, paying taxes, employing people and obeying laws; they want companies to contribute to broader societal goals as well.”
Source: PricewaterhouseCoopers

No. 2 Many corporations, including almost half of the *Fortune 500*, are now compiling and issuing annual reports that provide details about their environmental and social behavior.
Source: PricewaterhouseCoopers

No. 3 In the US alone, it is estimated that in 1999 more than \$2 trillion in assets were invested in ‘ethical’ investment funds. For listed companies, for which liquidity in their shares is important, being excluded from such funds could compromise their ability to raise capital.
Source: World Reported™

No. 4 Ninety percent of American workers say they expect their organizations to do “what is right, not just what is profitable.”
Source: Ethics Resource Center

No. 5 Employees say that their organization’s concern for ethics is an important reason that they continue to work there.
Source: Ethics Resource Center

No. 6 A 1999 study of 300 large corporations, cited in *Business and Society Review*, found that companies which made a public commitment to rely on their ethics codes outperformed companies that did not do so by two to three times, as measured by market value added.
Source: Business for Social Responsibility

No. 7 A recent longitudinal Harvard University study found that “stakeholder-balanced” companies showed four times the growth rate and eight times the employment growth when compared to companies that are shareholder-only focused.
Source: Business for Social Responsibility

No. 8 A study by the University of Southwestern Louisiana entitled “The Effect of Published Reports of Unethical Conduct on Stock Prices” showed that publicity about unethical corporate behavior lowers stock prices for a minimum of six months.
Source: Business for Social Responsibility

“ Man will occasionally stumble over the truth, but most of the time he will pick himself up and continue on. ”
~ Winston Churchill

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Less than a year ago, Enron was 25th in the *Fortune 2000* ranking of the “most admired” companies – the corporate equivalent of a global all-star team – judged by quality of management; quality of products and services; innovation; long-term investment value; financial stability; ability to attract, develop, and retain talent; community responsibility; use of corporate assets; and global business acumen.

In fact, the Houston-based energy trading concern ranked high on every *Fortune* measurement -- 31st among “fastest growing companies,” 16th on the *Global 500*, 7th on the *Fortune 500* and 22nd on the list of “best companies to work for.”

But the accolades turned to dust when the “truth” about Enron’s financial maneuverings and off-balance-sheet partnerships began dribbling into public view last fall.

Enron’s management was “arrogant, its business secretive and complex,” wrote *Boston Globe* business columnist Steve Bailey.

The Wall Street Journal described “vintage Enron” this way: “Minimal disclosure of financial information that, in retrospect, was central to understanding the complex company.” According to the *Journal*, Enron perpetuated “a culture of highly questionable financial engineering, misstated earnings and persistent efforts to keep investors in the dark. Senior Enron executives flouted elementary conflict-of-interest standards. The company hired legions of lawyers and accountants to help it meet the letter of federal securities laws while trampling on the intent of those laws. It became adept at giving technically correct answers rather than simply honest ones.”

As 2001 drew to a close, Enron had filed for the largest corporate bankruptcy in history, the SEC and Congress were investigating, *Dow Jones* columnist Gene Colter was publicly urging the company to “come clean,” and *BusinessWeek* had devoted their cover and extensive coverage to “The Fall of Enron.”

Enron provides just the latest case study of how “truth” can work either as a shield or as a weapon in corporate communications. Certainly, it seems obvious that the company would not have risen to the soaring heights it achieved had it been consistently more accurate in its financial reporting. The central question is: Had Enron been more truthful from the start, would its fall from grace ever have occurred? Would it still be a viable business today?

Whether public or private, large or small, domestic or global, businesses that understand the value that truth telling can have in building their reputations with key audiences are paying closer attention to the emerging corporate reporting trend of “triple bottom line reporting (TBL).”

TBL refers to the notion of reporting performance against social, environmental and financial measurements, creating a three-

dimensional picture of a company’s performance and accountability. Coined in 1997 by management consultant John Elkington, this theory holds that, to be judged a sustainable business enterprise, companies must demonstrate financial security; minimize negative environmental impacts, and conform to the common sense expectations of the larger society.

In essence, the TBL philosophy creates other legs for a company to stand on – a wider perspective on the truth – by expanding the elements of reputation to include measures of human capital, diversity, security, wages and social investments, to name just a few.

According to PricewaterhouseCoopers, nearly half of the *Fortune 500* are now compiling and issuing annual reports that provide details about their environmental and social behavior. To improve the usefulness of such data, consistent standards are being developed to guide the type of information to be disclosed and the format through which it will be reported.

In recent years, major corporate powerhouses such as Bristol Myers Squibb, British Telecommunications, Proctor & Gamble, Shell and others have begun issuing TBL reports under guidelines developed by the Global Reporting Initiative, a consortium of international public interest groups.

Clearly, it would be difficult to argue that a private, mid-sized technology company in New York or a small telecommunications equipment manufacturer in California should adopt TBL principles immediately. What is important, however, is to recognize that more and more companies understand the value of reporting information that goes well beyond the balance sheet. It is a philosophy worth serious consideration.

By surrounding the cut-and-dry aspects of financial performance with positive facts about other corporate truths – charitable donations, employee benefits, public affairs, etc. – a business can build a larger, more accurate picture of itself, offering a textured mosaic that reveals its true value to various audiences.

A corporate reputation is more complex to create and maintain than ever before. It need not be a mile wide and an inch deep. Non-financial indicators -- corporate citizenship, employee recruitment and retention, customer satisfaction, the strength of supplier partnerships and alliances, satisfaction guarantees, warranties, even web site navigation and performance -- are important parts of the puzzle that corporate communicators must build over time.

Enron learned this lesson with stunning swiftness because it neglected to build a reservoir of goodwill. Having created a mile-wide, inch-deep reputation founded solely on sky-rocketing financial performance, it had little to fall back upon when that trust came into question. One-legged stools are for circus clowns. ❖