

Public Relations and the Profit Motive

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A business school professor who teaches ethics noted that business schools have no higher ideal than making a profit as proof of business success. He adds that business schools have nothing to say about “love, forgiveness, gratitude and hope.” (Jan 5, 2005 *Financial Times*.)

Business schools teach profit maximization, transferring wealth from customers to owners, because that is what business does. Commerce is unlike medicine where lifesaving is at the core of what doctors do, or engineering where improving mankind’s lot is at the heart of calculations. Commerce is about exchange of goods, services and wealth. There needn’t be any ethic other than completion of a transaction. (If one takes a good, service or wealth without exchange, that is theft.) One can complete business transactions with illegal and injurious products and services as well as with offerings that are for the betterment of mankind. It is up to company leadership and to governmental and societal regulators to make sure companies remain within the boundaries of accepted societal ethics.

On the other hand, PR teaches relationship and reputation building in ways that lead to profits. PR assumes a business has vested interested in ethics. We know, of course, that this isn’t true. And, concerns for reputation and relationships can be addressed as easily in illegitimate businesses as in legitimate ones. A madam can run a whorehouse with an eye to treating customers well, so they return often, and a drug dealer can protect product from harmful contamination that might kill users and diminish cash flow.

As PR practitioners, we advocate reputation and relationships to company leadership that sometimes listens and sometimes doesn’t. We point to societal pressure, often expressed through governmental action and news stories, that can revoke a company’s permission to operate if it steps too far over the line of what society deems acceptable behavior. But a direct link to revenues and profits is missing unless a company is in a disaster scenario.

There is even more conflict. Under financial assumptions, money now is more important than money later. Reaping the greatest wealth today from customers for shareholders is better than doing so tomorrow. Under PR principles, money later is as valuable as money now, if one wants an enterprise to which customers return repeatedly and stand by loyally.

In a business school view, one maintains reputation and relationships to produce revenues and earnings. For public relations, reputation and relationships lead to

revenue and profits. The points of view appear identical, but practically speaking they aren't because business people, like business school professors, forget part of the equation.

Business school professors tend to abstract profit from the business context, while public relations holds that the business context is essential -- profit comes from flesh-and-blood people engaging in transactions. Put another way, in business schools, there appears to be more emphasis on mathematics than on messy details of customer, vendor and employee relationships and reputations.

The Tyranny of Finance

In fairness to business schools, many offer real-world experiences to students in to give them a better feel for the totality of business. (Most today do not take students without work experience.) But too often real-world courses are optional and attendant lessons in leadership, communications and ethics are good things to do but not essential. Communications or public relations courses in business schools are not mainstream, and perhaps never will be.

Finance professors are often first among equals and financial theory and calculation are considered more important than organizational theory and psychology. Students manipulate numbers without reference to people who turn numbers into facts. Too often, financially trained MBAs become quantitatively oriented consultants unskilled in leadership, communications and ethics necessary for making products, completing sales and serving customers for the long term. Few ever run stores or factories, even though these can be large enterprises. A big-box, do-it-yourself store can produce \$50 million in annual sales with all the problems attendant to retailing including staffing, logistics, shrink, training, communications and customer service. But, it is not uncommon that managers running these stores and responsible for a business' primary relationships are not college graduates.

Relationship and reputation management are at the core of marketing but even so, academic discussion often turns on abstract considerations and mathematical models rather than practical considerations of how to handle a customer who has just purchased \$20,000 of kitchen cabinetry and finds it doesn't fit. However, what business schools teach is responsive to their market -- large corporations, consulting firms and Wall Street financial houses that hire business school graduates. A gauge of a business school's success is the number of graduates employed by prestigious companies at high starting salaries.

These businesses want the analytical skills of MBAs and reward them proportionately. It may be that businesses hiring MBAs do not understand the need for reputation and relationships (which is unlikely), or they assume business students, as well as businesspersons, come equipped with ethical skills. But the problem turns quickly into one of focus, especially on Wall Street. Pursuit of

wealth is at the heart of investors' participation in markets. They prefer money now, although they can be suckers for a story that profits will come later – as happened during the Internet Bubble. Capital is impatient and institutional investors demand return. They are not shareholder loyalists, if a company fails to perform, and they rarely focus on the totality of a business or consider reputation and relationships when reviewing portfolios.

Investors are angry when scandal and fraud diminish the value of investments, but they are not necessarily upset by how a company relates to other target audiences, such as employees, customers and vendors, even if there are violations of human rights. (How else would one explain continued investment in cigarette manufacturers long after smoking was related to cancer?)

Governments pass laws, such as the Sarbanes-Oxley Law of 2002, to forbid practices that penalize shareholders and institute reforms that reduce the possibility of fraud. These reforms barely extend beyond investors to employees and others who are part of a universe of reputation and relationships that comprise a business. Other laws apply to them, but investors may not take such laws into account except in how they affect a company's revenue and earnings potential. Sharp focus on the bottom-line assumes, or forgets, too much. Companies in highly competitive environments with driven CEOs tend to forget the wider context of ethics, reputation and relationships in pursuit of revenues and earnings that "keep the Street happy." Business schools teaching profit maximization also tend to forget that numbers are not isolated abstractions.

The Real World

There is an irony that a foremost proponent of reputation and relationship principles was the senior PR person at a monopoly – AT&T --, which wasn't subject to real-world competition when Arthur W. Page developed public relations philosophy and principles. Page, who retired from AT&T in 1946, *"institutionalized public relations organizations throughout the Bell Telephone System. And as a consequence of his actions and example, as well as his many speeches, letters, and presentations, he fashioned a model of public relations and public relations performance that today remains the ideal to which all of us aspire."* (Edward M. Block, Senior Vice President (retired), American Telephone & Telegraph. <http://www.awpagesociety.com/activities/information/block.asp>)

Page's philosophy centered about understanding and communicating corporate and individual character (hardly numeric topics). He emphasized humanism and freedom as preconditions for capitalism. He stressed that a "successful corporation must shape its character in concert with the nation's. It must operate in the public interest, manage for the long run and make customer satisfaction its primary goal. *"Real success, both for big business and the public, lies in large enterprise conducting itself in the public interest and in such a way that the public will give it sufficient freedom to serve effectively."* (Block, *ibid.*)

Open most finance and accounting books, and you won't find that view expressed. You might find it in a strategy book, but it isn't likely because strategy is often based on manipulation of underlying financials. A company in a benign monopoly is concerned about keeping captive customers happy and not just keeping customers. And indeed, when AT&T lost its monopoly, it faded to a shadow.

Companies fighting in tough marketplaces prefer sales-oriented communications and push messaging, and they are numbers driven with a short-term focus that coincides with Wall Street's demands. The long run is a quarter, and strategy is how Wall Street bids the price of the stock. Public interest is an abstraction and in an era of multinational corporations (MNCs), it applies to many publics in many countries at the same time.

MNCs leverage the wage and price structures of one country against another to maximize profits. Their views of humanism and freedom are tempered by the opportunities to reap profit in societies where neither are a high priority (e.g., China). Page's view was that of an American nationalist, but we compete today in a global environment where pursuit of wealth allows indifferent treatment of publics that do not have the power or will to remove a company's freedom. MNCs are skilled at using differences between societal expectations and regulations as profitable opportunities.

Consider China. There, pursuit of profit has created factories with low paid workers churning out goods that have made competitive manufacturing in the US and elsewhere unprofitable. What to the US worker is shockingly bad pay is to a Chinese worker better than nothing. A company's pursuit of profit benefits millions of Chinese even as it disadvantages millions of American laborers. MNCs note there is no rule that business must be nationalistic.

We can examine other Page Principles against the same background.
(http://www.awpagesociety.com/about/about_principles.asp)

- ***Tell the truth.*** Let the public know what's happening and provide an accurate picture of the company's character, ideals and practices.
- ***Prove it with action.*** Public perception of an organization is determined 90 percent by what it does and ten percent by talking.
- ***Listen to the customer.*** To serve the company well, understand what the public wants and needs. Keep top decision makers and other employees informed about public reaction to company products, policies and practices.
- ***Manage for tomorrow.*** Anticipate public reaction and eliminate practices that create difficulties. Generate goodwill.

- **Conduct public relations as if the whole company depends on it.** *Corporate relations is a management function. No corporate strategy should be implemented without considering its impact on the public. The public relations professional is a policy maker capable of handling a wide range of corporate communications activities.*
- **Remain calm, patient and good-humored.** *Lay the groundwork for public relations miracles with consistent, calm and reasoned attention to information and contacts. When a crisis arises, remember that cool heads communicate best.*

One can place numbers against these principles, but they would be irrelevant. If the leaders of a company do not have a truth-telling ethic, it takes a law like Sarbanes-Oxley to compel them, but compulsion does not relate to whether a business is successful. Plenty of profitable businesses have lied and will lie and get away with it. Plenty of profitable businesses have ducked responsibilities to act on what they have promised customers and regulators. Plenty of profitable businesses manage for today and not tomorrow. Many have no public relations arms and the notion of remaining calm, patient and good-humored during a crisis is foreign. They might not engage with the public at all if they can get away with it.

When a businessperson or business school student focuses on profit and profit maximization, relationship and reputation considerations have little bearing. Is it any wonder the two sides cannot talk to one another without translation? Page had an answer for this, but his answer hasn't percolated into any business school text I've read. Here is an excerpted letter he wrote to the executives of the Continental Oil Company (<http://www.awpagesociety.com/about/block.asp>).

"The Continental Oil Company was chartered by public authority on the assumption that it would serve the public's needs for petroleum products. The theory was that its self-interest would insure its activity and competition would keep its products and services and its prices satisfactory.

"That is still the main basis of Continental's relation to the public. It is still a fact that the company was set up under public authority to benefit the public, and public authority can at any time limit its functions, its methods or abolish it altogether.

"So we, like all other companies, live by public approval and roughly speaking, the more approval you have the better you live. This is the fundamental reason for seeking public approval. The fundamental way of getting it is to deserve it.

"For a long time, business men figured that if they produced goods at a price that the public would buy, that was ample evidence that they deserved and had public

approval. But it turned out not to be as simple as that. Business found it could lose public approval by having trouble with labor, by being unpopular in its hometown, by using selling methods that didn't suit the government, and by an infinite number of other things, some of them seemingly quite harmless.

"So it has become generally accepted that a corporation must be a good citizen in all kinds of ways besides a good producer and distributor. Failing to meet an ever changing and sometimes whimsical definition by the public of what is a good corporate citizen may be the biggest hazard a company runs.

"So it is worthwhile to put some first-class effort on the somewhat nebulous job of being a good citizen. And having done this, it is just common sense to let your light shine where it can be seen. Publicity is the art of telling a good story well. If the story isn't good fundamentally, there is no one who can tell it well, and it is a waste of money to try.

"So our public relations are mostly what we do, but if what we do isn't exposed to view, we may not get the benefit of it."

The notion of public service and public permission to operate is not carved on the walls nor stated in the brochure or on the web site of any business school I have attended or visited. In fairness to the Arthur W. Page Society, it realizes its view could be considered quixotic, and that is the point. Here again, Edward Block:

Too many corporations don't tell the truth. Even a casual observer of the news of the day cannot fail to note how often they are caught dissembling or spinning half truths or telling outright lies.

Isn't it obvious that many corporations and corporate leaders time and again express their ideals and intentions in lofty rhetoric that is time and time again repudiated, not by the public, but by their own actions. Employees notice. Customers aren't fooled.

How many companies listen to their stakeholders diligently, patiently, with an open mind, and for the purpose of considering some modification of their policies, practices, or products? How many companies even bother to assign the responsibility for listening?

How many CEOs today genuinely believe that business in a Democratic society exists by the sufferance of the public? If any CEOs of Fortune 500 companies hold this belief today, they evidently belong to a secret society.

These appraisals may be harsh, at least in the rather blunt terms I have used. But if there is no basis in fact for this assessment, then the Arthur W. Page Society may as well fold its hand and go out of business.

It is interesting that intense discussion of whether and how to teach ethics in business schools occurred after the collapse of companies such as Enron, Worldcom and Healthsouth. And, many business school professors contend that it is too late to teach ethics by time students get into an MBA program. That said, business schools are changing, but changes will not impact company leadership for decades. It takes at least 20 to 25 years for an individual to rise to the top of an established company. A student immersed in Ethics 101 today has plenty of time to see rules for good behavior challenged and perhaps, modified by the competitive environment before reaching a senior position.

Turning to the principles of the Public Relations Society of America, we find similar dissonance between what PRSA advocates and what business does. First to the definition of PR: *"Public relations helps an organization and its publics adapt mutually to each other."* Further along, the PRSA states, *"As a management function, public relations encompasses the following: Anticipating, analyzing and interpreting public opinion, attitudes, and issues that might impact, for good or ill, the operations and plans of the organization."* The PRSA calls for the free flow of information to aid informed decision-making, integrity, honesty and accuracy in all communication and openness that builds trust and credibility. The PRSA stresses the need to avoid deceptive practices.

But in pursuit of profit, free flow of information is beside the point and often deleterious to the completion of economic transactions. Business need only supply sufficient information to complete a transaction – e.g. basic characteristics and price of a product or service. It is often the case that missing information includes limitations on products or services that make them useless to the buyer. In other words, deception is part of the transaction. Deceptive techniques of marketing are and will be used as long as there are buyers and sellers. The Latin phrase, "Caveat Emptor (Let the buyer beware)" applies in an environment where making a profit is proof of business success.

Thus, the PRSA also could be dispatched as quixotic in its stress on reputation and relationships as fundamental elements of economic transactions.

Where to from here

Does this mean that one should disavow public relations principles and move to any mode of communications that serves customers and adds to the bottom line? It seems that some have done just that. Recent incidents such as paying journalist commentators to promote political agenda is close to what early publicists PR did when they paid reporters and editors to write favorably about products and services. The notion of arms-length persuasion of the news media and conferred credibility of impartial journalistic evaluation were later developments in modern PR. They are principles that many businesspersons dislike because they lack control over communications outcomes. That is why advertising and promotion command the lion's share of expenditures, even

though advertising agencies have moved close to a time-billing model and away from commissions. The largest PR accounts today appear to be in marketing as well and consist more of push messaging – publicity placement and promotion – than of mutual adaptation between a company and its publics.

Relationship and reputation management must remain a concern for any business that plans to be around for the long term, but it might not be a priority where profit is the difference between success and failure. That said, there is room for idealism that PR practitioners bring to the corporate environment. Practitioners, however, must be prepared to defend their principles and to suffer defeat. The tougher the competitive environment, the more likely it is that rule-bending will occur and PR principles will be less important, unless the CEO personally takes up the cause. Few companies today have the sanctuary of a monopoly in which to focus on relationships as much or more than on return.

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