MEMO TO THE CEO

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MANAGE THE MEDIA

(DON'T LET THE MEDIA MANAGE YOU)

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How *Not* to Manage Relations with the Media

Chief executive officers are losing the battle for how Americans perceive them and the companies they lead. There's no clearer example than that of Robert Nardelli, the former CEO of Home Depot. Nardelli's $200 million–plus compensation package prompted an effort by organized labor to create a spectacle at Home Depot's 2006 annual shareholder meeting; in response, the CEO devised an abbreviated format for the meeting and cut off questioners, sparking a huge public relations disaster. Nardelli soon became "toxic," meaning that nearly all news media coverage of Home Depot revolved around the iron-fisted ways of an arrogant CEO. He was out of a job within a matter of months.

Other CEOs also have felt the sting of bad public relations—Hank McKinnell was hounded out of Pfizer, also because of a $200 million–plus retirement package (at the time Pfizer's stock had not appreciated significantly for some years). Lord Browne of BP, one of the most respected CEOs in the world, was drummed out. And Bill Ford at Ford Motor Company quit under pressure partly because he was never able to publicly articulate a convincing message about where the company was headed. In each case, there may have been an underlying business problem, but the attendant waves of negative publicity took on the force of unstoppable tsunamis.

The stakes are higher than just one figure's personal fate. The shellacking that companies receive, often over the issue of CEO compensation, knocks hundreds of millions of dollars off their market capitalization, which hurts executives, employees, and investors. And the negative environment also gives succor to activist shareholder groups, hedge funds, and private equity firms that may seek to force out CEOs and shake up boards. This climate can thwart many business objectives. Ultimately, the issue is, "Who's in charge of the corporation?"

It appears that the environment in which business leaders operate has undergone a structural change because of the proliferation of non-governmental organizations and other external groups and because of the burst of Internet-based communications that is taking place. "CEOs are losing the PR wars, and employees and the general public are losing their CEOs, which is not a good thing either," says Leslie Gaines-Ross, chief reputation strategist at Weber Shandwick, a public relations firm based in New York. "They're losing in some respects despite the fact that the economy is healthy and companies are innovating and creating new products that people want."[1]

I have been involved in covering major American companies for more than twenty years, as world editor at *BusinessWeek*, senior writer at *U.S. News & World Report*, and editor-at-large at *Business 2.0*. In recent years, I have specialized in covering CEOs and their boards as editor-in-chief of *Chief Executive* and *Directorship* magazines. In those capacities, I have interviewed dozens of CEOs and directors. Additionally, I have been able to study how CEOs see their businesses by writing a history of Cintas Corporation for Chairman Richard T. Farmer and by serving two years at American Express as a corporate writer. In that capacity, I had direct contact with James D. Robinson III, Sanford I. Weill, and Louis V. Gerstner Jr. So I have had many a ringside seat to battles between business leaders and the media.

The PR strategy, or absence thereof, was at the heart of what went wrong at Home Depot. In May 2006 Robert Nardelli was facing a concerted effort by the American Federation of State, County and Municipal Employees (AFSCME) to embarrass him at

Home Depot's annual shareholder meeting. A hard-hitting front-page story in the *New York Times* the day before the meeting relied heavily on information provided by AFSCME. The union's Richard Ferlauto, who was leading the attack, was astute in his ability to network with journalists and provide them with the kind of material they needed.

Nardelli decided to respond by discouraging his directors from attending the shareholder meeting and by imposing a tight limit on questions. According to my sources, Nardelli did not want to allow the union to "hijack" the meeting. Both internal and external public relations counsel tried to steer Nardelli from his dangerous course and warned him of backlash. But Nardelli ignored all PR counsel—and the media had a field day with the story, leaving Nardelli and Home Depot in a deep PR hole. The media did not report that there might have been a reason why Nardelli did what he did. All that Nardelli would say was that he had tried a new format for the meeting, but it didn't work and he would revert to a more open style the following year. To his credit, he did not assume a bunker mentality. He met with editorial boards for the *New York Times* and *Fortune*, among others. But his message fell flat—he apparently assumed he could ride out the negative coverage without being more forthcoming.

In the fall of 2006, I interviewed Nardelli for *Directorship* magazine, a small title aimed at a very high-level audience. I worked with top internal public relations representatives to set up a telephone interview. Then I conducted a thirty-minute interview with Nardelli. Our tone was cordial, but he refused to budge from his earlier statements and repeated the same formula to me over and over. He was clearly stonewalling. This is almost always a critical mistake.

When I prepared the transcript of the interview, I realized it was devastating. That had not been my intent; I wanted a fair account of what had happened. He might have had a credible message, if only he articulated it. I sent a copy of the transcript of the interview to Home Depot. This was an unusual journalistic practice, but it was so clear to me that it needed fixing.

Had Nardelli adjusted his answers and injected more credibility, he might not have been able to assuage all his critics but he might have demonstrated to at least some of them that there was a strategy behind his decision to run the shareholder meeting with an iron fist. But he chose not to.

The end result was an interview entitled "Nardelli's Mistake," which only compounded Nardelli's PR problem. The root cause appeared to be his conviction that, even though he was at the eye of an incredible

PR storm, that he could "gut it out," in the parlance of college football, which he had once played. It was of the last interviews he ever granted as CEO of Home Depot—he was forced out suddenly in early January 2007.

Ultimately, Relational Investors, a San Diego–based investment fund that owned only 1 percent of Home Depot shares, was able to use the Nardelli affair to push its own director onto the Home Depot board and secure the retirements of four directors who had been closely associated with Nardelli's pay package. "They won with 1 percent of the vote," Charles Elson, the governance expert from the University of Delaware told me. "It all goes to show that it's the message, not the messenger." This is an important point: if a company's opponents can define the message, they can win the day even if their raw economic power is relatively small.

Another company with a major public relations challenge has been Wal-Mart Stores. Looking back now, the key mistake that CEO Lee Scott made was that he allowed a loose Internet-linked network of unions; religious, community, small business, and equal-opportunity activists to coalesce into a force that could rally opposition to many different Wal-Mart initiatives. Critically, the company allowed its opposition to define what the issues were and to even define the very identity of Wal-Mart.

It seemed in the spring of 2006 that the company was encountering a "network effect" in which the forces of opposition were projecting far more strength together than they could have individually, a situation that was reminiscent of the antiwar movement of the late 1960s, when various activist causes—antiwar, pro-women, pro-minority—coalesced. In this case, Wal-Mart found itself in an almost purely defensive posture similar to that of the Nixon White House.

Part of the problem is that Wal-Mart had for years celebrated its small-town Bentonville, Arkansas, culture and values. That was helpful in penetrating rural America, but the company should have shifted gears earlier and become more culturally sophisticated. It also should have recognized that it could not simply stonewall the predominantly liberal New York–based media and the host of religious and labor groups that also had clear social agendas.

In the spring of 2006, I interviewed Paul Blank, who was campaign director of Wake-Up Wal-Mart, which is built around the Web site WakeUpWalMart.com. The key organizing force behind the Web site was the United Food and Commercial Workers International

Union, which obviously sought to unionize some Wal-Mart workers. It is one of two such union-backed organizations, the other being Wal-Mart Watch. Traditional methods of organizing workers simply weren't working. By developing a broader "movement," the union could project much more power.

At the time, the coalition claimed 235,000 members, including small business owners, environmentalists, and religious leaders. It was targeting Wal-Mart for its health-care policies and for allegedly allowing crime to fester in its stores, among other issues. "The 235,000 people are really representative of people of all walks of life," Blank said with almost evangelical zeal. "It is incredibly broad in terms of who has signed up."

Another, less likely, adversary was Sister Patricia Wolf, executive director of the New York–based Interfaith Center on Corporate Responsibility (ICCR) and a nun in the order of the Sisters of Charity, one of the 275 faith-based institutional investors that made up the broader ICCR. She and the Sisters of Charity had targeted Wal-Mart for what they regarded as Wal-Mart's poor track record in hiring and promoting women and minorities. The Sisters filed a shareholder resolution in seven different years, including every year since 2002. "The votes kept increasing," Sister Wolf said in an interview. "Last year, it reached 18 percent of the total. We thought that was a very good vote."

Wal-Mart, watching shareholder voting trends, gave in to the pressure and agreed to post its Equal Opportunity Employment data on its Web site, which henceforth would allow critics to measure its progress in hiring women and minorities. In the end, ignoring the nuns did not work.

The opposition has just kept growing. Roughly a year later, by the spring of 2007, the Wake-Up Wal-Mart group claims 366,085 members and proclaims on its Web site, "Join the most exciting, fastest growing social movement in America." And anyone searching for the words "Stop Wal-Mart" on Yahoo! got 10,300,000 hits (only 3,160,000 appeared on Google). There was some overlap among these sites. But however one counted it, it was clear that there were tens of thousands of sites dedicated to stopping Wal-Mart. One Web site featured a film from You Tube raking Wal-Mart over the coals for everything from racial discrimination in promoting minorities to environmental destruction to the destruction of small businesses. This was a grassroots brushfire.

In response, CEO Scott began demonstrating greater sensitivity to the coalitions of critics around him, but his recognition came late. Huge damage had been inflicted—and not just on Wal-Mart's image. There also were clear business and legislative consequences. The retailer has had trouble expanding into affluent Northeastern urban areas because of the negative perceptions it generated. Legislation was introduced in the state of Maryland mandating how Wal-Mart should treat its employees. An effort by Wal-Mart to expand into financial services ran into a political firestorm that forced it to relent. And the New York City Comptroller asked the U.S. Attorney General's office and the Securities and Exchange Commission to investigate Wal-Mart for "ill-considered and possibly illegal surveillance operations."[2] This was in connection with an internal "threat assessment" sleuth who monitored the communications of shareholders and critics.

Scott's effort to go on a charm offensive may have come too late. At the advice of a new team led by PR counsel Leslie A. Dach, he came to New York in late March to meet with the editorial boards of several major news organizations. But one of them, the *New York Times*, stung him with a headline, "Wal-Mart Chief Writes off New York." In his conversation with editors and reporters at the paper, Scott was asked about any plans to expand into the New York area, which had long resisted Wal-Mart. "I don't care if we are ever here," he was quoted as saying.[3] That was the wrong message.

The storm of negativity has become a self-fulfilling prophecy as more entrants seek to score off of Wal-

Mart's woes. Even Human Rights Watch, which normally concentrates on human rights issues in foreign countries, issued a report criticizing the way Wal-Mart has disrupted unionization attempts. A Wal-Mart spokesman said the company gave its employees "every opportunity to express their ideas, comments and concerns."

But the damage was done. A non-governmental organization dedicated to fighting for human rights around the world, and that therefore possesses a certain credibility, had attacked the giant retailer.

Even assuming that Wal-Mart is now employing the most sophisticated and best communications measures, it could take it years to recover the brand equity it had a decade ago.

One of the most remarkable displays of insensitivity from a CEO has been that of Countrywide Financial Corporation CEO Angelo Mozilo. He built Countrywide into the country's largest mortgage company in part by using creative financial techniques such as the "pay option" loan, in which borrowers choose how much they want to pay per month and add the rest to the loan's principal. It may work in the short term but it exposes the borrower to possible long-term trauma. Countrywide thus was at the epicenter of the subprime borrowing mess. The media were portraying