the image bank

# Overcoming Groupthink in the Boardroom

By David Silver, APR

Toyota, Goldman Sachs and BP were global giants that dominated their industries, and the executives who ran them excelled in finance, business strategy, IT and accounting. They managed brands known throughout the global marketplace and were profitable to the tune of billions of dollars.

But something happened along the way that caused these corporations to falter and earn the ire of the national and global financial media: They forgot the importance of the company's reputation.

Today's media is unforgiving when corporations fail to communicate or communicate poorly during a crisis. Many brilliant executives who have gone to the best business and law schools haven't learned one of the most important aspects of running a global company: how to communicate during distressed times.

These companies' stories are even more compelling because they are major public corporations whose stock has plummeted as traders and analysts on Wall Street have responded with negative comments and selloffs. It should be noted that officials could have employed a solid communications strategy to improve the public perception of the company — and improve its stock price. Unfortunately, most of the issues start with groupthink in the corporate boardroom, where executives agree to hide from the problems that their companies are facing instead of engaging a communications team to guide them through a crisis.

## Creating crisis

In 2009 and 2010, the world's leading automaker, Toyota Motor Corporation, started a massive recall and halted production of eight models of cars totaling millions of vehicles because of a sticking accelerator pedal. But because the Japanese company neglected to respond immediately to growing public anger and resentment — which included more than 100 deaths — and blamed manufacturers who made the gas pedals, a business disaster started to unfold. The communications failure has cost Toyota millions in sales. But more important, its credibility and trust has been shattered in the global marketplace because of a decision made in the corporate boardroom. Executives didn't own up to the problem quickly enough, and the company has suffered for it. (A 10-month investigation by The National Highway Traffic Safety Administration recently cleared Toyota by announcing that the company's electronic throttle system was not to blame for reported cases of runaway acceleration.)

The London-based BP, faced with continuing negative coverage from the global financial media and the American public of its massive oil spill in the Gulf of Mexico, has demoted CEO Tony Hayward — who had done a poor job communicating the oil company's public responses — and replaced him with an American executive, Robert Dudley, to handle the crisis for the oil company.

Last April, the Securities and Exchange Commission charged Goldman Sachs and one of its vice presidents with defrauding investors by misstating and omitting key facts about a financial product tied to subprime mortgages as the U.S. housing market faltered. The SEC alleged that Goldman Sachs structured and marketed a synthetic collateralized debt obligation (CDO) that hinged on the performance of subprime residential mortgage-backed securities. Goldman Sachs failed to disclose to investors vital information about the CDO, in particular the role that a major hedge fund played in the portfolio selection process and the fact that the hedge fund had taken a short position with these CDOs.

All three of these corporations didn't communicate as media outlets disseminated the negative news to the public. Their response was to form a bunker mentality, which caused the public perception of their crises to get worse.

## Understanding new realities

It has been 46 years since Marshall McLuhan, the famed communications theorist, popularized and defined the terms "mass media," "global village" and the "Age of Information." In his seminal work, "Understanding Media: The Extensions of Man," he wrote, "In a culture like ours, long accustomed to splitting and dividing all things as a means of control, it is sometimes a bit of a shock to be reminded that, in operational and practical fact, the medium is the message."

"Corporate boardrooms need to eliminate groupthink at the highest levels to ensure that a communications meltdown will not occur."

One could argue that his vision becomes truer with each passing year. With the financial meltdown in the past few years, global investors, consumers, elected officials and institutions can now find out bad news by clicking a button. *The Wall Street Journal* became the highest-circulation newspaper in the United States last year for a reason: Financial news is huge. The flood of sensationalized television news programs, newspapers, magazines and websites spews out oceans of financial information on public companies, their management, and the surrounding regulatory and business information. But negative news sells the best, so understanding how to confront and manage a crisis or litigation is imperative for corporate boardroom executives.

## Educating executives

To be fair, groupthink is often the result of communications ignorance. I blame the business and law schools for not considering communications just as vital as accounting, finance, management and legal analysis. By relegating communications to a "soft" discipline, many brilliant executives running public companies simply don't know what to do when a crisis hits. They feel paralyzed, and this feeling results in a paralyzing groupthink in the corporate boardroom.

Given the economic crisis and faulty decision making by the corporate boardroom, public relations and investor relations professionals must merge their duties into one cohesive communications platform. This is the only way that companies can get their stories to investors, consumers and elected officials when there is a major crisis.

The importance of merging these functions and having them perform optimally isn't small. Positive communication now plays a role in the daily share price of the company, its valuation and its market capitalization. This is increasingly determined by intangibles such as a solid and honest senior management, an independent board of directors, employee loyalty, and ethical and profitable business partnerships. To support their work in creating positive and ethical public perception, PR and IR professionals must also now become familiar with the new phalanx of stringent regulations governing the running of public companies.

Corporate boardrooms need to eliminate groupthink at the highest levels to ensure that a communications meltdown will not occur. Corporate management should be secure in turning to their PR and IR executives for guidance.

Executives must understand how important communications is to a public company's future reputation and earnings, and know how to tear down the groupthink mentality that evolves during a crisis and still persists in venerable corporations today. ■

David Silver, APR, is president of Silver Public Relations, an L.A.-based financial PR and investor relations firm. His book, "Managing Corporate Communications in the Age of Restructuring, Crisis and Litigation: Groupthink in the Corporate Boardroom," will be published in 2012.