

## When Bad Things Happen During a Good Turnaround

# Using Strategic Public Relations Effectively

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**A** good reputation must be managed carefully. Once it's gone, it's very difficult to regain.

Donald Carty, for example, was perceived as the "Great Communicator" during his five years as chairman and CEO of American Airlines. During his time in the executive suite, American had grown through savvy marketing and acquisitions to be the world's largest airline. However, the glory of that achievement and Carty's good name were short-lived.

An economic downturn in the United States — compounded by the terrorism of September 11 and subsequent wars in Afghanistan and Iraq — threw the aviation industry into a prolonged slump, marked by \$5 billion in net losses during the past two years. American lost \$3.5 billion in 2002 and \$1.04 billion in the first quarter of 2003.

Despite the hard times, Carty was able to hold onto his post in large part because of his communication skills and management acumen. In a speech he gave in 1999, Carty said, "What those of us in management need to do is spend the time and energy needed to demonstrate to every employee across the company that we are committed to building a culture of trust, of respect, and appreciation."

But as Carty sought this spring to implement a turnaround plan to prevent his airline from filing for Chapter 11 protection, he apparently forgot that his credibility was a priceless asset. As he and other executives pushed for wage and benefit reductions from the airline's unions, Carty neglected to mention that the carrier was establishing a plush retention plan for 45 of its senior managers. The plan included large bonuses for top executives and a trust fund to protect the pensions of other key leaders in case of bankruptcy.

Shortly after American's unions gave preliminary approval to \$1.62 billion in concessions, the company filed a Securities and Exchange Commission (SEC) document that outlined the retention plan. The unions cried foul and threatened to rescind the agreements that — for the good of the company — sacrificed compensation for hundreds of thousands of employees.

Carty's "culture of trust" was in tatters. The turnaround planning of the company's many finance experts, legal advisors, and negotiators was on the verge of being rendered moot. Carty quickly apologized, but in less than two weeks, he was forced to resign.

What can be learned from this dizzying chain of events? The management retention and pension protection plans were perceived as not being aligned with American's stated turnaround strategy. Against this backdrop, Carty's public commitment to building a culture of trust, respect, and mutual appreciation lost all credibility.

In retrospect, it seems remarkable that no one at American connected the dots on how the retention plan and any appearance of secrecy in its development could boomerang. Perhaps Carty and other

top leaders assumed that the SEC filing would fly below the media's radar. Perhaps they figured that Carty's reputation for leadership, built during two decades with the company, was strong enough to withstand any threat to the turnaround effort.

One aviation finance expert said that it was remarkable how quickly the deal with the unions was put back together after Carty left. There was an incredible public relations effort to communicate that a mistake had been made and the CEO had to go. However, the effort also effectively conveyed that the underlying facts that supported the concession package were still in place.

The public relations moves by the carrier's unions and leaders, in retrospect, closely mirror three key precepts of turnaround management:

- **Analyze the situation.** Carty's leadership position was jeopardized by not sharing information with employees about the retention plan as bankruptcy tensions mounted.
- **Stabilize the business.** After weeks of difficult negotiations resulting in major givebacks by union members, the renewed threat of Chapter 11 had to be put to rest.
- **Return to normal.** "Normal" is a hard word to define, given these circumstances. But American did avoid a bankruptcy filing at the time.

What qualifies this chain reaction as a series of public relations moves? Many business people look at public relations as simply issuing news releases on new products or getting an executive's by-lined story published in a trade magazine.

However, public relations embodies cultivating relationships with a wide range of publics, or constituencies. In this case, American Airlines faced a crisis in which it needed to communicate with investors, Wall Street analysts, a slew of government officials, media, retirees, community leaders and, most important, employees (unionized or not).

The air carrier's example demonstrates that to restore value, turnaround experts often need to consider public relations implications. Three key questions can form a basis for such an evaluation:

- How have overall communications been aligned with the business strategy?
- How can external communications emphasize the positive changes underway?
- How can internal communications inform employees, raise their spirits, and develop them into ambassadors for the organization?

The following explores these precepts more closely and examines how they affect a turnaround, particularly one that has been subjected to an earth-shaking event such as the outbreak of war or a frightening new disease such as severe acute respiratory syndrome.

**Align all communications with the business strategy.** If something needs to be said to regulators, employees, investors, community members, or other stakeholders, it needs to be said in a manner that supports the business plan. For instance, in a turnaround, a basic question would be: Has a message reflecting the underlying reasons for the business's failure been delivered to, and reviewed by, the company's constituencies?

The benefits are simple. Coordination of communication increases the likelihood for message clarity, which creates greater opportunities for understanding and cooperation by all audiences. It puts all parties on the same page, thereby minimizing or eliminating confusion. Carty's example shows how the spirit of collaboration can evaporate when messages and actions are not aligned.

In essence, alignment allows the vision of corporate leaders to be translated into action.

**Emphasize the positive changes underway.** Nearly everyone has been caught doing something wrong, but the best public relations efforts note when things have gone right.

For example, in the corporate renewal industry, many distressed businesses require substantial layoffs to stabilize finances. When a newspaper reporter wants information on the local impact, a question about how many workers were let go is sure to come up. It's a legitimate issue. But just as important is to answer completely, by emphasizing the number of jobs that were saved.

That emphasis should extend to all external and internal communications about the layoffs. For maximum strategic support, the same core message must be sent to each constituency.

For example, when pre-war diplomatic jousting escalated between the United States and France earlier this year, published reports showed that sales of French wine slipped dramatically. To counteract the trend, an owner of a wine distribution firm with a substantial inventory of French labels might use some or all of the following public relations tactics.

- Send letters to the editors of local newspapers acknowledging the unfortunate state of affairs between the two countries, but reminding readers that the firm's employees are their neighbors and are trying to make a living and support their families by distributing a product that many know and appreciate.
- Sponsor wine-tasting events focused on educating the community on the relative merits of France's vintners.
- Band together with other wine distributors to communicate with Congress and the White House on the business impacts of trans-

Atlantic tensions in the United States.

- Recommend that the local chamber of commerce sponsor a breakfast panel that includes local business representatives whose firms do significant business with French organizations.
- Print pamphlets for wine merchants to distribute to customers that spell out five things wine lovers should know about wines from France.

Extraordinary events can lead to dramatic opportunities for a turnaround in public perceptions. For instance, the pharmaceutical industry was hammered during the Clinton administration with allegations of profiteering on certain medications and running amok on patent protection issues.

However, after September 11, major drug makers transformed themselves into allies for homeland security as government agencies and the medical community searched for medicines and vaccines to combat anthrax, germ warfare, and other bioterror threats.

The pharmaceutical industry's expertise on drug interactions is clearly something it does right and is therefore a strategic source of restorative public relations benefits.

Another example of the positive effect that an unforeseen event can have on a turnaround involves Flir Systems, a Portland, Ore., developer of thermal-imaging and thermal-measurement equipment. Flir's gear typically has been in demand among military and public safety personnel. Last fall, however, Flir was busy settling legal matters, such as SEC charges that the previous management team fraudulently inflated profits to meet analysts' forecasts in 1998 and 1999.

Little did company leaders know that half a year later, the company would be flying high because of an infrared-imaging and measurement camera that can be used by airport personnel to spot a symptom of SARS. Flir's camera can non-invasively take passengers' temperatures as they board a plane. A primary symptom of SARS is a temperature above 100.4 degrees Fahrenheit.

Flir's ability to adapt technology to help solve an extraordinary problem has been noticed by investors and the media and has all the symptoms of a public relations bonanza.

**Develop employees into ambassadors.** By developing a strategy for internal and external communications that keeps employees and their families abreast of a turnaround's progress, a company can arm its employees with facts to spread the word through the community and the industry.

The benefits to instilling pride among employees are many:

- **Recruiting talent.** It's human nature to want to work with people who enjoy their jobs and workplace. When employees express pride — particularly in the company's comeback — talented people take notice.
- **Calming fears in the community.** When jobs are eliminated, there is often a lingering concern about when the next round of layoffs will occur. By keeping employees informed of the company's health — and eventually, how it is improving — they will gladly tell their family members and neighbors that the worst is over.
- **Improving productivity and minimizing employee unrest.** When times are tough for a business, it's easy for employees to be distracted. Even a stranger wearing a suit and meeting with a boss behind closed doors can breed suspicion. A commitment to providing news to employees and the community can keep the rumor mill from getting out of hand.

Employee ambassadorial efforts can be high-profile, such as the testimony on state and local response to SARS offered by an Ecolab vice president to the Senate Permanent Subcommittee on Investigations in May.

Ecolab, a developer of premium cleaning, sanitizing, pest elimination, maintenance, and repair products for the hospitality, food service, institutional, and industrial markets, experienced a tremendous boom in demand for its products as SARS became a household word.

Or employee ambassadors can be relatively low-profile, such as volunteering to serve on a community task force, tutoring in a literacy program, chairing a committee for a trade group, or coaching a youth basketball league.

Supporting employee ambassadorship doesn't cost a lot but creates goodwill that can help a company on the path to restoring its place in the community and industry.

Turnaround experts know the value of marketing in restoring value, and marketers know that the most effective advertising is word of mouth. Public relations activities are where word of mouth begins. [EN](#)

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